

***United States Court of Appeals
for the Second Circuit***



APPENDIX

75-7546

In The
United States Court of Appeals
For The Second Circuit

OSCAR GRUSS

Plaintiff-Appellee,

and

OSCAR GRUSS & SON,

Plaintiff,

vs.

THE CURTIS PUBLISHING COMPANY,

Defendant-Appellant.

JOINT APPENDIX

Volume II, pp. 211a - End

LEE, CASH & MARKS

Attorneys for Defendant-Appellant

295 Madison Avenue

New York, New York 10017

(212) MU 3-6202

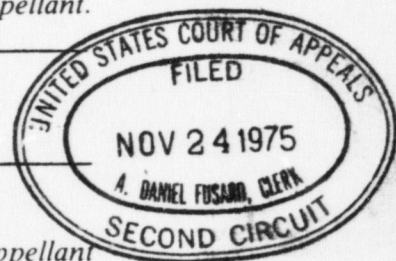
KASS, GOODKIND, WECHSLER
& GERSTEIN

Attorneys for Plaintiff-Appellee

122 East 42nd Street

New York, New York 10017

(212) 867-8570



(8906)

LUTZ APPELLATE PRINTERS, INC.
Law and Financial Printing

South River, N.J.
(201) 257-6850

New York, N.Y.
(212) 563-2121

Philadelphia, Pa.
(215) 563-5587

Washington, D.C.
(202) 783-7288

PAGINATION AS IN ORIGINAL COPY

TABLE OF CONTENTS

	Page
Docket Entries	1a
Complaint (Filed January 17, 1973)	5a
Defendant's Notice of Motion to Dismiss (Filed April 3, 1973)	13a
Affidavit of David M. Gerstein in Opposi- tion to Motion to Dismiss (Filed July 12, 1973)	15a
Exhibit A — Complaint Annexed to Foregoing Affidavit (Printed herein at p. 5a)	19a
Answer (Filed September 5, 1973)	20a
Copy of Memorandum and Order Denying Motion to Dismiss (Filed October 24, 1973)	23a
Stipulation of Agreed Facts (Filed March 18, 1975)	29a
Exhibits Annexed to Foregoing Stipulation:	
A — Prospectus Dated September 14, 1972 (Printed herein at p. 317a)	31a
B — Letter Dated September 12, 1972	32a
C — 1973 Annual Report (Printed herein at p. 401a)	33a

Contents

	Page
Transcript of Proceedings Before Brieant, D.J. on October 10 and 11, 1974 (Trial) .	34a
Findings and Conclusions of Brieant, D.J. .	258a
Defendant's Order to Show Cause For an Order Amending the Findings and Conclusions and Amending the Judg- ment, With Memo Endorsed Staying Enforcement of the Judgment (Filed April 17, 1975)	287a
Affidavit of Harry L. Schroeder in Support of Defendant's Motion (Filed May 20, 1975)	293a
Exhibits Annexed to Foregoing Affidavit:	
Letter of duPont Glore Forgan Incor- porated Dated September 11, 1972 . . .	296a
Letter of Merrill Lynch, Pierce, Fen- ner & Smith, Inc. Dated September 8, 1972	297a
Letter of Merrill Lynch, Pierce, Fenner, & Smith, Inc. Dated September 11, 1972	298a
Letter of Merrill Lynch, Pierce, Fen- ner & Smith, Inc. Dated September 27, 1972	299a

Contents

	Page
Letter of Merrill, Lynch, Pierce, Fenner & Smith, Inc. Dated October 24, 1972	300a
Affidavit of Beurt Ser Vaas Dated May 7, 1975	301a
Affidavit of Howard W. Taylor, Jr. Dated May 19, 1975	303a
Affidavit of Julius Andreder in Opposition to Defendant's Motion (Filed June 10, 1975)	305a
Exhibit A -- President's Letter Annexed to Foregoing Affidavit	311a
Memorandum and Order Including Supplementary Findings and Conclusions Denying Defendant's Motion (Filed August 25, 1975)	312a
Stipulation Respecting Exhibits to Be Made Part of Record on Appeal (Filed September 29, 1975)	316a
Plaintiff's Exhibit 2 -- Defendant's Proxy Statement	317a
Plaintiff's Exhibit 11 -- Defendant's Annual Report	410a

Contents

Page

WITNESSES

Wilkinson:

Direct 54a

Oscar Gruss:

Direct 57a

Cross 61a

Julius Andreder:

Direct 65a, 94a, 152a, 248a

Cross 78a, 183a

Redirect 90a, 190a

Recross 91a

Fred Shinagel:

Direct 197a

Cross 224a

cpd

Shinagel-Direct

175

1 valuation that this expert is utilizing is based upon a
2 valuation that was put forth by Curtis, the very valuation
3 that nobody has testified to has any meaning, the -- the
4 very recapitalization that nobody has testified has any
5 meaning in reality at all.
6

7 THE COURT: Please sit down. I have sustained
8 your objection.

9 O Mr. Shinagel, would you go back on the record
10 and describe with a little more particular clarity now what
11 you would attribute on a financial basis the value of the
12 \$4.00 preferred stock as it existed prior to the time of the
13 recapitalization, based upon your valuation of the corpo-
14 ration as it existed prior to the time of the recapitalization,
15 which was on the 13th.

16 A Right. Well, let me backtrack. My feeling was
17 that the whole structure would, in terms of equity, would be
18 worth a million dollars.

19 Now, if we -- you see, under that basis I would
20 have to ascribe the million dollars to the debentures alone.

21 THE COURT: I thought that you had assumed the
22 million if the debenture holders did not surrender their
23 debentures, which of course you must. You understand that
24 I have ruled that I can't take testimony based upon the
25 successful adoption or completion of the plan that is in

cpd

Shinagel-Direct

176

1
2 issue here, because this man voted no, or at least he claims
3 he did. If so, his value is to be fixed as of the date
4 before the plan and without regard to the plan, but taking
5 all the known facts that existed on the 13th of September.

6 A Well, I would like to, if I may just have two
7 minutes, to reflect on this.

8 MR. CASH: May I suggest a five-minute recess on
9 this, your Honor?

10 THE COURT: All right. I think perhaps I should
11 talk to the lawyers while the witness is reflecting.

12 (Luncheon recess.)
13
14
15
16
17
18
19
20
21
22
23
24
25

1 cpd

377

2 AFTERNOON SESSION

3 1:40 P.M.

4 F R E D S H I N A G E L, resumed.

5 THE COURT: Did you have enough time to compose
6 your thinking during the luncheon recess?

7 THE WITNESS: Yes, I did. Thank you, your Honor.

8 DIRECT EXAMINATION CONTINUED

9 BY MR. CASH:

10 Q Mr. Shinagel, I believe, in an effort to pinpoint
11 the whole problem, will you first tell the Court what you
12 feel the twelve thousand some-odd shares, what the fair
13 value would be in terms of the Pennsylvania statute, as you
14 were called on to give this opinion?15 MR. FUCHS: I object, your Honor. I don't know
16 that he testified that he is familiar with the Pennsylvania
17 statute.

18 THE COURT: Sustained. Let's start fresh.

19 Q Mr. Shinagel, would you give your opinion now as
20 to what you consider to be the fair value of the shares of
21 stock in question.22 THE COURT: Following the financial method
23 that he discussed this morning.

24 Q That is correct.

25 A Right. In my opinion, the \$4.00 preferred stock

cpd

Shinagel-Direct

178

was worth \$1.50 per share.

Q Will you describe to the Court how you arrived at this particular figure?

A I had valued the equity of the company on the day before this transaction at one million dollars, and that would be a company that had a ten million dollar long-term debt on its balance sheet, a thirteen million dollar deficit book value, and very poor prospects.

And I had assumed in my valuation that whoever bought the company, that is, who wrote a check for a million dollars, would in his own assumption assume that he could make a deal with the long-term creditors, because otherwise he is back where he started, and it wouldn't be worth a million dollars.

Taking a million dollars for the equity, I attributed one-quarter of that to the common shareholders and three-quarters of that to the preferred shareholders, simply because one had to make a mental allocation. And, of the three-quarter portion to the preferred shareholders, I took 50 per cent, or five hundred thousand dollars, for the \$4.00 preferred, and two hundred fifty thousand dollars for the \$1.60 preferred.

Since there are some 335,000 shares of the \$4.00 preferred outstanding half a million dollars divided by

cpd

Shinagel-Direct

179

335,000 comes to \$1.50 a share.

Q Mr. Shinagel, did you use any other method to test this valuation?

A Right.

Q What method did you use?

A I examined the market price and market history of the preferred stock itself.

MR. CASH: Your Honor, before I proceed any further with the questioning of this witness, I would appreciate the right to put into evidence the records of the Philadelphia-Baltimore and Washington Exchange, which deal with both the prices and the transactions for the period of time, both preceding and subsequent to the period in question, as previously agreed to by counsel for the plaintiff and myself, so that this can be put into evidence without having to lay the foundation of bringing anybody from the Exchange.

MR. FUCHS: I am not sure that that is what we agreed to. Let me take a look at the document.

THE COURT: Perhaps I can make it easier for you. I would certainly take the quoted published prices if that is what the exhibit reflects. As far as the other is concerned, I would have to rely on the agreement of counsel.

MR. CASH: This is what I agreed on with counsel.

cpd

Shinagel-Direct

180

1 Because I would have had to bring somebody up to testify
2 about this, and this is what our original discussions were.

3 MR. FUCHS: Your Honor, I believe our original
4 discussions state that the expert witnesses could testify as
5 to what they believed the market prices and volumes were for
6 the purpose of their expert testimony, to be given whatever
7 weight the Court would desire to give it.

8 I don't believe that we had stipulated to whole-
9 sale allow a document in that has a great many figures per-
10 taining to volume, pertaining to market price, that may or
11 may not be relevant, that have not necessarily been testified
12 to.

13 THE COURT: If he made an investigation after he
14 got that document, and he has the opinion that that is sub-
15 stantially correct, I will take it as an indication of the
16 volume. I won't take it as precise volume figures. But I
17 think an analyst has to know -- has to have some substantial
18 information as to what the general trends are in the market
19 volume, the same as the appraiser of real estate is going to
20 look into the comparable sales of the property.

21 MR. FUCHS: Your Honor, it hasn't even been
22 established yet that the witness has relied upon this docu-
23 ment.

24 THE COURT: He can ask him.
25

cpd

Shinagel-Direct

181

1 MR. CASH: I am not even at that particular point,
2
3 your Honor. But the point is this, your Honor: I had
4 expected to make a part of the record the prices of the stock
5 and the --

6 THE COURT: That I will take.

7 MR. CASH: -- and the number of transactions in
8 these stocks, and this was based upon a discussion that I had
9 with counsel the day before the trial when he called me up
10 and asked me whether I would object to his witness testifying
11 as to valuation -- as to quotations of stock. And I said
12 yes, I wouldn't have any objection if we can have some sort
13 of quid pro quo.

14 I would like to have the right, without bringing
15 up the Philadelphia-Baltimore-Washington Exchange to do the
16 same thing, because I have figures of the Exchange, and I
17 told him I have figures both on the transactions as to the
18 price being quoted in the transactions, and based upon that,
19 I relied upon that representation, your Honor.

20 MR. FUCHS: Your Honor, the representation I gave
21 and the discussion I had was exactly pursuant to the stipu-
22 lation that we dictated here on the record at the beginning
23 of this trial. If there is any question --

24 THE COURT: Gentlemen, I am not going to start a
25 trial within a trial to determine who said what to whom, two

cpd

Shinagel-Direct

182

1 or three days ago, or even before that. So just show this
2 document to the witness, and if he can tell us anything at
3 all about the document, I will overrule the objection and
4 take it.
5

6 Q Mr. Shinagel, have you seen the document before?

7 A Yes, I have.

8 Q Have you studied this document?

9 A Yes, I have.

10 Q What is this document?

11 A It is a record of the daily trading activity of
12 Curtis common, \$4.00 preferred, \$1.60 preferred, on the
13 Philadelphia-Baltimore-Washington Stock Exchange, for the
14 calendar year 1972.

15 Q Based upon your study of this document --

16 A And you secured this at my request.

17 Q And based upon your study of this document --

18 MR. FUCHS: I object to the question, as it has
19 not been established that he studied the document.

20 THE COURT: He hasn't finished the question.

21 Did you study the document?

22 A Yes, I did.

23 Q Did you make any analysis based upon your study of
24 the document?

25 A I did.

cpd

Shinagel-Direct

183

1 cpd
2 Would you describe to the Court what your analysis--

3
4 THE COURT: Let's get past the document first.
5 Did you examine that document?

6 A Yes, I did.

7 THE COURT: And form any opinion as to whether
8 you think it reliably reflects the volume at which the
9 securities were traded?

10 A Of course it did. It is an official document of
11 the Exchange.

12 THE COURT: That is not the question.

13 Did you form an opinion as to whether this parti-
14 cular document reflected the transactions of both the price
15 and volume on the Exchange?

16 A Right.

17 MR. CASH: I offer this document into evidence,
18 your Honor.

19 MR. FUCHS: I object, your Honor. He has no
20 expertise as to whether or not this would form any particular
21 opinion as to what the quantities -- as to whether or not
22 this would be accurate as to what the quantities and the
23 market price were. He is not an expert in that.

24 THE COURT: I will take it for what it is worth.

25 (Defendant's Exhibit D received in evidence.)

XXX

cpd

Shinagel-Direct

184

Q Mr. Shinagel, will you describe to the Court what analysis you made with reference to these published figures?

A First I wanted to see what the average daily trading volume of the \$4.00 preferred was, to form a judgment of what the market was and what the company reasonably could absorb on a single trading day. I had done that analysis on a monthly basis, and then on a daily basis, and I came up with a figure of **between** five hundred and six hundred shares per day was the average daily trading volume in this stock.

THE COURT: During what period?

A During the period January through October, 1972.

THE COURT: What was it from January to July?

A January to July was a little higher. Just by examination, I would say seven hundred, eight hundred shares a day.

Q Mr. Shinagel, will you go on and describe what other analysis that you conducted in order to arrive at a conclusion?

A Right. I noticed the price trend during that period -- over the whole period, the price range had been between 4-3/4 and 2-1/8, with the price trending downward throughout the time period. The 2-1/8 low was made in August, and I noticed that that was after the proxy material had been circulated.

cpd

Shinagel-Direct

185

1 The 4-3/4 high was made in June, before the proxy
2 material was available.
3

4 I also analyzed the trading volume for the pre-
5 ferred and the common as related to the total number of
6 shares outstanding, to test whether the preferred trading by
7 itself was representative of activity relative to the total
8 number of shares outstanding, and whether the common was
9 representative in relative activity. And I found that,
10 proportionately, more preferred shares were traded during
11 the prospectus period, that is, August and September, than
12 common shares, which leads me to place greater emphasis on
13 the preferred market value directly rather than trying to
14 ascribe a derivative market value, that is, taking preferred
15 value and then adjusting it for conversion, assuming a
16 transaction.
17

18 The preferred in August traded .68 per cent of the
19 total shares outstanding, and in September traded .82 per
20 cent of total shares outstanding. For the year 1972 to date,
21 which means until trading was suspended in middle October,
22 14 per cent of the \$4.00 preferred shares were traded on the
23 Baltimore Exchange.
24

25 Now, by comparison, the common stock in -- this is
the Curtis common stock -- in August traded .18 per cent of
its total shares outstanding, and in September, .055 per cent.

cpd

Shinagel-Direct

186

For the calendar year 1972 through October 16, only 4-1/2 per cent of Curtis common were traded on the Baltimore Exchange. That is, 4-1/2 per cent of the Curtis common outstanding.

Q Mr. Shinagel, based upon this analysis, what was your conclusion?

A That certainly the preferred trading by itself was an adequate yard stick of or speculator market activity, and that one did not need to rely on the common as the determinant of preferred value, from the point of view of market valuation.

Q What was, from your study, the quoted price of the \$4.00 preferred on September 13, '72?

A The stock ranged between \$3.00 and 2-3/4 and closed at \$3.00.

Q In that figure, could you ascribe, based upon your analysis, what factors went into making that particular price?

THE COURT: What date was this?

MR. CASH: This is September 13, your Honor.

THE COURT: The stock market price as of that day.

MR. CASH: That is correct.

A It is my judgment that the preferred on that date was worth \$1.50 per share, and in anticipation of a success-

1 cpd

Shinagel-Direct

187

2 ful transaction the next day, that an additional \$1.50 of
3 value was reflected in the stock.

4 Q Mr. Shinagel, based upon the evidence which
5 indicates that the plaintiff in this lawsuit had 12,540
6 shares, could you describe to the Court what these shares in
7 their entirety would be worth on September 13, 1972, on a
8 market value basis?

9 MR. FUCHS: May I object just for the sake of
10 clarity. It's 12,560 shares, and that is what the evidence
11 shows.

12 MR. CASH: I am sorry, your Honor.

13 THE COURT: All right.

14 A It is my feeling that that block of stock, if it
15 were placed on the market for a sale that day, would signi-
16 ficantly depress the market of that day. I recollect that
17 the average trading volume was six hundred shares; that that
18 day actually five hundred shares were traded, and it would be
19 my judgment that an insistent sale of that day would bring
20 the price down by 1-1/2 points to \$1.50 a share.

21 Q Is this based upon your analysis of the trading
22 record that you referred to before?

23 A Yes, and my general judgment of the security
24 transactions.

25 Q Is there anything in the general record of the

cpd

Shinagel-Direct-Cross

188

trading which occurred prior to the effective date which would lead you to this belief?

A There were several days where blocks of two or three thousand shares, which were significantly greater than the average trading, depressed prices by three-quarters of a point. And in this case we are dealing with twelve and a half thousand shares, which is an order of magnitude of virtually ten times.

MR. CASH: I have no further questions, your Honor.

MR. FUCHS: If it please the Court, I am going to refer to Plaintiffs' Exhibit 2 for identification during my questioning.

THE COURT: All right.

- - - - -

CROSS EXAMINATION

BY MR. FUCHS:

Q Sir, are you being paid a fee by the defendant, Gruss & Co., to testify here today?

A No.

Q Excuse me, I am sorry. By the defendant, Curtis Publishing Company, to testify today.

A Yes, I am.

Q Will you tell the Court what you are being paid?

cpd

Shinagel-Cross

189

1 cpd
2 A I don't know yet. It is on a per diem basis.

3 Q Will you tell me what arrangements you have made to
4 be paid on a per diem basis?

5 A Yes. \$750 a day.

6 Q Have you ever testified in behalf of the Curtis
7 Publishing Company before?

8 A Never.

9 Q When you were apprising the Court of the financial
10 factors that you took into consideration in determining in a
11 financial manner what the value of the preferred stock would
12 be, didn't you say that one of the factors you took into
13 account was your belief that the company could not continue
14 in the present form as an on-going company, that it either
15 had to liquidate or recapitalize or something, am I correct?

16 A Right.

17 Q Hypothetically, then, sir, if the company did not
18 have to recapitalize and did not have to liquidate, but was
19 able to continue as an on-going company, if we take that
20 hypothetical, would it then not affect your valuation with
21 respect to the value of the preferred stock, based upon your
22 financial

23 A If it did not have to recapitalize?

24 Q That is correct.

25 A Theoretically, it would.

cpd

Shinagel-Cross

190

Q Would it affect its value and increase it in value?

A It would increase it in value.

C Am I correct that you based your opinion that the company could not continue as an on-going company but would have to liquidate, on a portion of the prospectus that you read previously that says, "All of the company's cash is required for working capital and its operation will not support the present future interest in dividends burdens unless the company can be recapitalized promptly on an all-common-stock basis. Management knows of no alternative to a liquidation of the company in which the holders of the debentures,

(which are subordinated to general creditors on liquidation) would receive very little if anything, and the holders of the prior preferred and common stock \$1.00 par value would receive nothing."

Is that what you based your belief upon that the company could not go on as an on-going company?

A That, and the financial statements themselves.

Q Well, do the financial statements themselves show what prospects the company had for obtaining further capital or for obtaining further assets or further businesses?

A No, they don't.

C So, basically, sir, is it true, sir, that you base your opinion that they could not obtain such further capital

1 cpd

Shinagel-Cross

191

2 and so forth from the statement in the prospectus itself, is
3 that correct?

4 A From this statement or other statements?

5 Q From this statement.

6 A No, from that and other statements.

7 Q What other statements, sir?

8 A You would have to give me time.

9 THE COURT: Talking about the statements that are
10 included in the exhibit there, number 2?

11 A Yes, right.

12 THE COURT: All right.

13 A There were other references.

14 There is a reference in the projected cash flow on
15 page 32. It says, "All these projections are based on
16 many factors, such as costs, revenues, results of liti-
17 gation, wage levels, employee relations, taxes, postal rates,
18 business controls, general economic conditions."
19

20 The cash flow itself for the three-month period
21 ended September '72, under "Sources of Funds" -- and that was
22 the quarter that we were in -- reflects an anticipated source
23 of \$105,000, in that quarter, which had been due and assumed
24 to be paid on July 1.

25 When you refer to a footnote on page 73 to the

cpd

Shinagel-Cross

192

1 financial statements, and I refer to footnote number 19, it
2 says the quarterly installment of \$105,000, due July 1, 1972,
3 has not been paid.
4

5 Q But is there anything in those footnotes that
6 indicates as to what would be happening subsequent to
7 September 1972 as to whether or not the company would be able
8 to continue from that point that you just read? I mean, other
9 than the statement that I read to you, is there anything in
10 those footnotes that gives any indication as to what the
11 situation might be had the company attempted to continue as
12 an on-going company beyond 1972?

13 A I don't really follow your question.

14 Q I read from your statement of cash flow of 1972,
15 but is there anything in the prospectus other than the state-
16 ment that I had read to you from the prospectus earlier that
17 indicates that the company would not be able to obtain funds
18 and turn itself around after 1972?

19 A Well, the -- I would like to use the word inference --
20 was that unless Mr. SerVaas was involved in the company, that
21 the company itself had no means to raise additional capital.

22 Q Was Mr. SerVaas involved in the company at the
23 time?

24 A I believe he was the president.

25 Q Do you know whether Mr. SerVaas had any interest in

tpd

Shinagel-Cross

193

the company at the time so that he would be involved in the company?

A Oh, yes.

Q He did have an interest in the company?

A Oh, yes.

Q Well, would you say with that interest in the company that he had at the time that he would be interested in getting more involved in the company to see that it would obtain greater assets in the future and become able to continue as an on-going company?

A I would presume so.

I found another reference.

Q All right. The answer was that you presumed he would be interested, is that correct?

A Yes, of course.

Q What is the other reference?

A On page 9, "A purpose of this plan is to enable the company to attempt to obtain credit for the conduct of its business. Credit has not been available to the company for some time, except for limited advances which had been personally guaranteed by Mr. SerVaas.

"Another purpose of the plan is to make the company more attractive for purposes of merger or similar business combinations in order that some portion of the tax loss may

1 tpd Shinagel-Cross

194

2 be utilized. However, the tax loss may be subject to sig-
3 nificant reduction."

4 Q So, in other words, you are talking basically in
5 terms, in those statements, of inferences of pessimism based
6 upon not having any credit in the past, is that correct?

7 A Right, or currently.

8 Q Currently?

9 A Currently.

10 Q You have no indication whether or not there could
11 have been any credit in the future, is that correct?

12 A Well, the statement is the company has no -- not
13 been available to the company.

14 Q If I may show you Plaintiffs' Exhibit 1, I refer
15 you to the paragraph that you read on direct, and that I
16 reiterated to you, and requoted to you from the stand, that
17 says, basically, that unless the company can be recapitalized
18 promptly, management knows of no alternative to a liquidation
19 of the company, et cetera, as I read before, and you testi-
20 fied that based upon this and the other things that you
21 mentioned, you were of the belief that the company would have
22 to liquidate or recapitalize, is that correct?

23 A Right.

24 Q I ask you to read the very next paragraph that
25 begins, "The alternative."

1 tpd

Shinagel-Cross

195

2 Please read it out loud.

3 A "The alternatives to the proposed plan of recapitalization and acquisition which the board of directors has
4 considered include voluntary liquidation or continued
5 operation until either the company's resources are exhausted
6 or its operations become more stable."

8 Q Is there any indication to you from that paragraph
9 as to how long the company could go as an on-going company
10 until its resources were exhausted?

11 A Not from that paragraph, but from my own experience
12 I would judge it would be a question of six months to a year.

13 Q Is there any indication from that paragraph as to
14 whether or not the company might perhaps take
15 the other alternative and stabilize, as that statement says,
16 exhaust its resources or become stable?

17 A It is an alternative, yes.

18 Q Would you say there might be a possibility from
19 the two paragraphs you read today that perhaps there might
20 have been other alternatives besides a liquidation?

21 A In my opinion?

22 Q Yes.

23 A In my opinion, that was a catch-all phrase to
24 cover the company in case something beneficial happened. I
25 mean, there is always -- lightning could strike. But the

tpd

Shinagel-Cross

196

weight of evidence that had been presented in the prospectus to me was one of disaster, not of continuing operations.

THE COURT: We will take a short recess at this time, gentlemen, for about ten minutes.

(Recess.)

CROSS EXAMINATION CONTINUED

BY MR. FUCHS:

Q Mr. Shinagel, you categorized the second paragraph, which you read on page nine of Plaintiffs' Exhibit 1 for identification, as sort of a catch-all phrase that indicated that for any possibility, if lightning struck and so forth --

A Yes.

A Is it at all possible that such a statement might be indicating that what this plan was all about was a voluntary recapitalization rather than a forced recapitalization?

A I thought it was voluntary.

Q It was a voluntary recapitalization?

A That's my understanding.

Q I see.

A I don't think any one was forced to do anything here.

Q Were they about to go into bankruptcy if they didn't? Is there anything in there that indicated they were going to go into bankruptcy in view of this second paragraph?

tpd

Shinagel-Cross

197

1 A No, no. Bankruptcy was not the contention; it
2
3 was liquidation, not bankruptcy.

4 Q When you talk in terms of insolvency, what do you
5 mean when you say the company was insolvent pursuant to
6 these financials?

7 A That after a period of time it won't have enough
8 working capital to meet its obligations.

9 Q That is assuming, again, that the conditions stay
10 as they are as at the time the financials are taken?

11 A Right.

12 Q Mr. Shinagel, what did you testify was, in your
13 opinion, the overall equity value of the company, giving in
14 effect the speculative aspect, such as Mr. SerVaas --

15 THE COURT: Don't ask him what he testified to,
16 ask him a question.

17 Q Was it a figure of approximately a million dollars?

18 A Correct.

19 Q And this was as at September 13, 1974, correct?

20 A Correct.

21 Q Do you know what the market price was for all of
22 the securities of the company as of September 13, 1974?

23 Excuse me, 1972. Please let the record reflect
24 I mean 1972.

25 A I think it might be in the area of three million

1 tpd
2 dollars.

3 Q About three million dollars?

4 A Yes.

5 Q Your speculation with respect to what the equity
6 would be you would say is more accurate than the public's
7 speculation, so to speak, as reflected by the market, is
8 that correct?

9 A Right.

10 Q Can you tell me why, sir?

11 A Well, I was working on the basis, in my
12 valuation, of someone writing a check for a million dollars,
13 which is a more concentrated form of money than the indivi-
14 dual speculations of an individual market.

15 Q So, in other words, you were thinking in terms of
16 what the value would be if one person had to buy out the
17 entire company, is that correct, or one entity had to buy
18 out the entire company?

19 A Or a group. Someone had to write a check for a
20 million dollars and that can -- I was thinking in terms of
21 an individual, an entrepreneur like Mr. SerVaas, who had the
22 capability.

23 Q Let me ask you this:

24 You discussed the volume of trading frequently
25 throughout your testimony.

1 tpd

Shinagel-Cross

199

2 What significance do you place on the volume of
3 trading in your testimony?

4 A Just it's a matter of fact.

5 Q But what significance did you attach to it? Why
6 did you refer to the volume of trading in coming up with your
7 various opinions?

8 A Well, there were two areas that I wanted to deal
9 with. One was, could the market absorb 12,000 shares in a
10 day, and so I wanted to have a feeling what the trading
11 volume was. And the other was whether the preferred relative
12 to the common was trading on its own or whether the preferred
13 value was only derivative from the common value.

14 Q In determining whether or not the market could
15 absorb the shares, did you come to a conclusion that the
16 market could absorb the 12,560 shares at the price that the
17 preferred was selling at?

18 A At the price of \$3.00 or a price of -- my conclusion
19 was that the price had to be significantly depressed.

20 Q Did you base your valuations on such significantly
21 depressed price?

22 A Not my financial valuation.

23 Q Did you base your so-called market value consider-
24 ations upon that?

25 A The market value corroborated my financial value.

tpd

Shinagel-Cross

200

Q But did you place your market value considerations upon such a discount as a depressed sale?

A No.

Q Did you examine whether there was any over-the-counter trading in these current securities?

A I did not.

Q Do you know whether there was any?

A I do not.

Q You stated that there was greater volume of the trading in the preferred stock just prior to the time that the recapitalization went into effect than there was in the common, is that correct?

A Relative to the shares outstanding.

Q Right.

You said that, therefore, that the market value of the preferred stock would, thus, be a more accurate indicator than the market value of common stock because of the fact there was more trading in the preferred. Is that what you said?

A Well, the point I was developing in my mind was really in response to a different type of argument, and that is, is the common stock the real determinant of the preferred stock market price? And I have concluded that the common stock is not a determinant of the preferred stock

1 tpd

Shinagel-Cross

201

2 market price.

3 Q Let me ask you this, sir.

4 Let us assume hypothetically that a recapitalization
5 was announced by Curtis as to which the holders of the pre-
6 ferred shares were not going to be getting good treatment as
7 opposed to some other securities, what would you expect the
8 activity on the market to be with respect to such preferred
9 stock?

10 MR. CASH: Your Honor, I object to using a hypo-
11 thetical.

12 THE COURT: I will let him answer it.

13 A I would think that the preferred stock would sell
14 lower than it would otherwise, because there would be a de-
15 sire to sell it.

16 Q Would you say there would be a greater activity in
17 the market in the preferred than otherwise because there
18 might be a desire to sell it?

19 A It could.

20 Q So then, therefore, might it not be that the greater
21 activity in the market of the preferred stock before the plan
22 went into effect was due to the effect of the plan as opposed
23 to any particularly true indicator of what the value of the
24 preferred stock was?

25 A Well, you are asking me for a value judgment

1 tpd

Shinagel-Cross

202

2 whether the plan was no good, isn't it?

3 Q I am asking you if that is a possibility that
4 exists.5 THE COURT: Well, anything is possible. You ought
6 to direct your question to his professional judgment, what
7 he believes or does not believe in exercising the expertise
8 which he claims in this field.

9 Frame a new question, please.

10 Q In referring to the market price on the valuation
11 day of the preferred stock, which I believe you testified
12 was three something, and you said that you would equate it
13 at \$1.50 rather than three something that it was sold at, if
14 the preferred stock -- if the market value of the preferred
15 stock was depressed because of a poor deal, wouldn't you
16 expect then perhaps -- wouldn't you expect, then, that per-
17 haps the true value of the preferred stock might be over the
18 three dollars rather than less than three dollars?

19 MR. CASH: Your Honor, I object.

20 THE COURT: Sustained.

21 Do you have an opinion as to how long it would
22 have taken in early 1972 to dispose of this block of stock
23 without affecting a change in the price?24 THE WITNESS: We have some guidance in that
25 regard in that the S.E.C. has a regulation that if a company

tpd

Shinagel-Cross

203

1 tpd
2 wants to buy back stock, it shouldn't influence the market,
3 and the rule of thumb that I know of is that you can't --
4 your volume can't be more than ten to fifteen per cent of
5 the total volume.

6 In that regard, if it is fed in or out at that
7 rate, it is believed ^{not} to influence the market either way.

8 The market itself was 47,000 shares for the whole
9 1972 through October, and 15 per cent of that would be 7,000
10 shares, so about two-thirds of the block could have been
11 absorbed, I think, without influencing the market over the
12 nine-month period.

13 Q Sir, in deciding how much of the equity in the
14 company you would have given to the preferred shareholders,
15 I believe you said that three-quarters would be given to the
16 preferred shareholders, is that correct?

17 A Right.

18 Q And a quarter to the common stock?

19 A Right.

20 Q How did you arrive at the figure that a quarter
21 should be given to the common stock?

22 A Well, the problem in an exercise like that is the
23 common does not deserve anything, but you have to preserve it,
24 to keep it, because the common preserves your structure and
25 your shareholder body and it is a mental pushing around of

tpd

Shinagel-Cross

204

1 numbers in that 50-50 would have been too much and 25 seemed
2 -- in the orders of magnitude that we have been talking about,
3 seemed not unreasonable.
4

5 Q Where a company was completely insolvent to the
6 point of going under, are you aware of any custom where
7 generally you completely take care of the senior securities
8 first in such a reorganization without giving the common
9 stockholders anything?

10 A By senior, you mean debt, also?

11 Q Debt and preferred shareholders.

12 A Yes.

13 If you tried to preserve the shell, I mean other
14 than bankruptcy, and I'm not a bankruptcy expert, I think
15 there is a distinction between reorganization and recapital-
16 ization, and it is my experience in recapitalization that you
17 preserve the common class so they have something, and in
18 reorganization, I think all bets are off.

19 Q When do you have a reorganization as opposed to
20 a recapitalization?

21 A I think a reorganization comes out of a court
22 proceeding, and a recapitalization is voluntary on the part
23 of the company, but I'm not a legal expert, and I think this
24 is a legal question.

25 Q So the figures that you were utilizing, sir, were

tpd

Shinagel-Cross

205

1 basically thinking in terms of an on-going company and a
2 voluntary liquidation, again, rather than a forced situation,
3 is that correct?
4

5 A Correct, correct.

6 MR. FUCHS: Your Honor, may I have a very short
7 recess to discuss the matter with my client for two minutes
8 at this point?

9 THE COURT: Yes, certainly.

10 (Recess.)

11 CROSS EXAMINATION CONTINUED

12 BY MR. FUCHS:

13 Q When you were referring to a receiver buying the
14 company for a million dollars, were you referring to a
15 receiver buying it for a million dollars with the debt in-
16 volved in the company, that is, the bonds and so forth?

17 A That's right. But I also in my mind made the
18 assumption that the receiver had the intention and also had
19 the personal conviction that that debt could be looked over,
20 because the debt is a stranglehold.

21 THE COURT: Were the holders of this debt in a
22 position to cause the corporation to cease doing business?

23 THE WITNESS: Not yet.

24 THE COURT: What would they have to have before
25 they could compel a dissolution?

tpd

Shinagel-Cross

206

1 THE WITNESS: You see, this was an income venture,
2 which means interest is only paid ~~unless~~ earned, and I
3 believe that the debenture holder really had to wait until
4 1986, until maturity.

5 THE COURT: One more thing as long as I have
6 interrupted.

7 You have read page seven, I take it, of Exhibit 7.

8 It says there the ratios were determined with a
9 view to giving the debentures and preferred stock five times
10 their average market value in terms of the average market
11 value of the present common stock.

12 THE WITNESS: Right.

13 THE COURT: Can you tell us where that word
14 "five" or that figure of "five times" comes from?

15 THE WITNESS: It has puzzled me and I can only
16 give you my professional guess.

17 THE COURT: If it is a professional guess, I
18 don't know if it is a guess or not.

19 THE WITNESS: The debenture was trading at \$20 a
20 share and a factor of five brings it to par, but the impor-
21 tant thing in my mind was that the preferred was treated on
22 equal rank with the debenture.

23 THE COURT: Five times what?

24 THE WITNESS: Five times the preferreds' average
25

1 tpd Shinagel-Cros :

207

2 value.

3 THE COURT: Average market price?

4 THE WITNESS: Right, average market price. And
5 that was a deal that was structured between the debenture
6 holders and the preferred shareholders, which led to this
7 recapitalization.

8 THE COURT: Was it or was it a figure which the
9 board of directors evolved from some place?

10 THE WITNESS: My professional guess is that it --
11 the preferred is treated in equal rank with the debenture
12 and that is generous.

13 Q Which class of preferred is treated?

14 A Both classes of preferred.

15 Q Were they treated equally?

16 A I really only studied the \$4.00 preferred, so let
17 me ---

18 Q You say the \$4.00 preferred was treated equally
19 with the debentures?

20 A Right. Its market price was calculated at five
21 times as was the debenture price, and that was then a criter-
22 ion for --

23 Q Sir, you say they were treated equally if you
24 assume if they were actually each given five times their
25 market value.

tpd

Shinagel-Cross

208

1 A Right.

3 Q But you have not testified that, in effect, the
4 number of common shares that they were given was, in fact,
5 actually equivalent to five times their market value, is
6 that correct?

7 THE COURT: Doesn't that appear from Exhibit 7?

8 A Yes. I thought it was evident on page 10.

9 Q Page 10 of what, sir?

10 A Of Exhibit 7.

11 Q May I see what you are referring to, please?

12 A Sure (handing).

13 Q Is that assuming that the period of time over which
14 the market value was taken is a relevant period?

15 A Yes. The period of time that was used was the
16 average of a period of months, September 1971 to February
17 1972.

18 Q Is normally that the period, that type of period,
19 one that would be utilized in recapitalization? Is there
20 anything that you could point to that would be particularly
21 accurate about that period?

22 A No, no, I don't, I can't, except it is a long
23 period of time.

24 Q If I were to tell you that hypothetically during
25 that period of time the market values were such that the

tpd

Shinagel-Cross

209

\$1.60 preferred stock would be treated much better by utilizing that period of time than they would for any other period of time, would you begin to wonder whether that was an appropriate period of time to utilize?

MR. CASH: I object to that, your Honor.

THE COURT: Sustained.

Did anything happen to the fortunes of this company between February 1972 and September 13 which affected its value, in your opinion?

THE WITNESS: I'm not aware of anything. It is between September 1971 and February 1972.

THE COURT: No, I mean between February 1972 and the date of the meeting.

THE WITNESS: I'm not aware of any.

Q Sir, what was the amount of corporate debt involved on September 13, 1972 that you were referring to again?

A Let me look at the --

Q Please.

A Are you referring to long-term debt or are you referring to current liabilities?

Q I am referring basically to the debt securities.

A The debt securities as of March 31, 1972 were almost ten million dollars.

Q You are saying those debts were included when

1 tpd

Shinagel-Cross

210

2 somebody would buy the company for one million dollars, is
3 that correct?

4 Well, this is the balance sheet as of March 31,
5 1972. You are talking about a transaction as of September 13,
6 1972. I have not seen a balance sheet as of September 13,
7 1972.

8 Q I see. I see. I am talking about September 13,
9 1972.

10 A I have not seen a balance sheet as of that date.

11 Q Is there anything that would indicate to you as
12 to whether there had been any significant change in the debt
13 between March and September 1972?

14 A I think there was a transaction to retire some of
15 the debt.

16 Q How much of the debt?

17 A One or two million dollars.

18 Q So then roughly you might say in September 1972
19 there might have been eight million dollars worth of debt?

20 A Right, yes.

21 Q So wouldn't it be true, sir, that somebody buying
22 the company for a million dollars would be actually paying
23 something like nine million dollars for the company between
24 assuming a debt and paying cash, they are actually paying
25 nine million dollars for the company, is that correct?

1 tpd

Shinagel Cross

211

2 A Well, I don't think he would pay nine million
3 dollars.

4 Q You said he would pay one million dollars, correct?

5 A Yes, and he's got an assumption in his mind that
6 he is going to be able to deal successfully with that debt.

7 Q That he is going to be able to deal successfully
8 with that debt, right?

9 A Yes, because the debt itself is an unnecessary
10 albatross on the company's balance sheet. You can't do
11 anything with that debt.

12 Q So aren't you assuming, then, actually that the
13 person who would buy this for a million dollars would have in
14 mind that he could wipe out the debt and get the company
15 going?

16 A Right.

17 Q Yet in your opinion somebody would pay a million
18 dollars for it?

19 A But there is the risk that he may not succeed.

20 Q But you are saying that somebody would do it for
21 a million dollars, is that correct?

22 A Yes, I think that's --

23 Q Then you are saying, then, that somebody would pay
24 a million dollars and take over that type of debt. Wouldn't
25 you assume that if the company really had very little chance

tpd

Shinagel-Cross

212

of continuing without liquidating that somebody would not pay one penny for it?

MR. CASH: Objection.

THE COURT: Sustained.

MR. FUCHS: I have no further questions.

MR. CASH: I have no redirect, your Honor.

THE COURT: All right, you are excused, sir.

(Witness excused.)

MR. CASH: The defendant rests.

THE COURT: The defendant rests.

Does the plaintiff have anything further?

MR. FUCHS: Yes, I have a very short rebuttal.

I would like to call Mr. Julius Anreder to the stand briefly.

- - - - -

JULIUS ANREDER, called in rebuttal, having previously been duly sworn, was examined and testified as follows:

THE COURT: You are reminded you remain under oath, Mr. Anreder.

DIRECT EXAMINATION

BY MR. FUCHS:

In your discussions with Mr. SerVaas prior to the recalculation you previously testified to, will you please

1 tpd

Anreder-Direct

212 *A*

2 tell me what topics you discussed?

3 MR. CASH: I object, your Honor.

4 THE COURT: Yes. No proper foundation. Time
5 and place and who was present must be fixed.6 Q Did there come a time when you had a meeting with
7 any of the officers or directors of Curtis Publishing
8 Company?9 A Yes. As I testified yesterday, I had several
10 meetings, several with Mr. SerVaas personally and one with
11 the committee of the board of directors.12 Q Could you please tell me to the best of your
13 ability on what date you had meetings with Mr. SerVaas?14 A They were several times in the summer of 1972. I
15 would guess within about a three or four month period,
16 beginning around June, sometime.

17 Q What year?

18 A In 1971. I'm sorry.

19 Q Could you please tell me who was present at these
20 meetings with Mr. SerVaas in June --21 THE COURT: Let us take one meeting at a time.
22 Let us take the first meeting and the second or whatever
23 meeting you want me to hear about, but I can't take testimony
24 as to conversations in bunches.

25 Do you recall whether you had such a meeting on

tpd

Anreder-Direct

213

June 23, 1971?

A Yes, I do.

Q Could you please tell me who was present at that meeting?

A Mr. SerVaas and I.

Q And who, please?

A And I, and me.

Q Was anybody else present?

A No.

Q Do you know where that meeting was held?

A My recollection is that it was a breakfast meeting at the Waldorf Astoria.

Q Can you please tell me to the best of your ability, do you recall what was discussed at that meeting?

A I don't recall it per se now; I recall it after examining a memo that I had dictated right after that meeting.

Q I will show you a document and I will ask you whether or not this is --

THE COURT: Mark it for identification.

(Plaintiffs' Exhibit No. 14 was marked for identification.)

Q I show you a document, Mr. Anreder, marked for identification as Plaintiffs' Exhibit 14.

Could you please tell me whether or not this

XXX

tpd

Anreder-Direct

214

particular document refreshes your recollection in any manner as to what was discussed during the June 23, 1971 meeting?

MR. CASH: At this time, your Honor, I would like to move that any line of questioning with regard to a meeting held more than a year prior to the date in question be struck because it is completely irrelevant to the issues which may exist a year and a half later.

THE COURT: I don't know, you see, without knowing what he said, whether it would be relevant or not. So I will have to permit him to proceed.

Q Please proceed.

THE COURT: Just answer the question yes or no. Does it refresh your recollection?

please now state to the Court what was discussed at that June 23, 1971 meeting?

A Well, there were several topics. Generally, the state of the company and its ability to continue to going on, the advisability of having some sort of recapitalization plan, Mr. SerVaas's reservations about certain types of reorganizations or recapitalizations of the company, and that's about it.

Generally, the state of business of the company.

tpd

Anreder-Direct

215

MR. CASH: Then I must reinstitute my objection as he is discussing the financial status of the corporation a year and a half prior to the date of valuation.

MR. FUCHS: Your Honor, there was discussion at that time about recapitalization that occurred with a major stockholder of the company that very well could have led to the recapitalization here in question.

THE COURT: Supposing it did, Mr. Fuchs, I don't see the relevancy.

I am taking financial data which is in these exhibits, which are already in evidence, which go back before this time.

MR. FUCHS: Your Honor, if there is any admission in such a meeting by Mr. SerVaas and, thus, by the defendant as to whether or not the company would have to recapitalize or continue, I believe it will certainly have some probative value as to whether or not the company could have been maintained as an on-going corporation, as stated by Mr. Anreder, or not, or --

THE COURT: The witness has stated that he assumed and believed that it could be continued as an on-going company.

MR. FUCHS: The only testimony is the expert testimony --

tpd

Anreder-Direct

216

1 tpd
2 THE COURT: Let us get right down to the memoran-
3 dum. Are you offering the memorandum?

4 Q Mr. Anreder, does that memorandum state anything
5 with respect to any discussion that there might have been
6 as to whether or not the company could survive with or with-
7 out a recapitalization?

8 A Yes, there is, very explicitly.

9 Q Can you state what the memorandum says?

10 A The second paragraph of the memorandum says, "He
11 claims that the company is now not losing money and that he
12 can keep it going indefinitely. The major problem is Holiday
13 magazine, which has an eleven million dollar subscription
14 liability and made money in only three of the first five
15 months. At the present time, Holiday is non-saleable,"
16 and if there was any way he could get rid of it without
17 paying off the subscriptions, he would do so, but he men-
18 tioned that the company was not losing cash, and that they
19 could keep on going indefinitely.

20 Q Do you recall whether you set forth that paragraph
21 on the memo stating the truth as you knew it at the time?

22 MR. CASH: Your Honor, I move to strike this as
23 leading the witness.

24 THE COURT: He can use the memorandum to refresh
25 his recollection, but I don't see too much relevancy

tpd

Anreder-Direct

217

1 in the testimony. The man expressed the opinion that he
2 thought the company could continue indefinitely, and that is
3 his opinion. He is entitled to have it.
4

5 MR. FUCHS: Then I think it might be an admission
6 as to whether or not the president of the company felt the
7 company had to liquidate or not, and I think this might have
8 some bearing on --

9 THE COURT: I won't take it as an admission.
10 However, such an expression of opinion by the president,
11 if it was made to this witness, does affect the market value
12 of the shares because all that information is cranked into
13 the market, you know. It keeps people from selling or makes
14 people want to buy. If he said it to this analyst, he pro-
15 bably said it to others.

16 I will let the testimony stand. Let us go on to
17 something else.

18 MR. FUCHS: At this point, I would like the
19 document that is marked as Plaintiffs' Exhibit No. 14 for
20 identification introduced into evidence by the plaintiff.

21 THE COURT: I have permitted him to use it to
22 refresh his recollection, and he has testified to the con-
23 versation in it, so I don't see that we need the memorandum.

24 MR. FUCHS: All right, I will concede that.

25 THE COURT: I will take the conversation, that

tpd

Anreder-Direct

218

was the opinion of SerVaas at that time, for what it is worth.

MR. FUCHS: I have no further questions of the witness.

THE COURT: Is there any cross examination of this witness?

MR. CASH: I have no cross examination, your Honor.

THE COURT: All right, sir, you can step down.

(Witness excused.)

THE COURT: Are you resting?

MR. CASH: Defendant rests, your Honor.

MR. FUCHS: Plaintiff rests, your Honor.

THE COURT: All right, gentlemen.

Off the record.

(Discussion held off the record.)

THE COURT: Let us go back on the record.

Post-trial memoranda, which I hope will be short and to the point, will be exchanged within two weeks following the receipt to the attorneys and the Court of the filing of the transcript of the trial.

Each of you is responsible for your own exhibits.

Thank you, gentlemen. Decision is reserved.

WITNESS INDEX

219

<u>Name</u>	<u>Direct</u>	<u>Cross</u>	<u>Redirect</u>	<u>Recross</u>
"Wilkinson	19			
Oscar Gruss	22	26		
Julius Andreder (resumed)	31 58/212	43 147	55 154	56
Fred Shinagel	161	188		

EXHIBIT INDEX

<u>Plaintiff</u>	<u>Identification</u>	<u>In Evidence</u>
1		11
2	23	49
3	33	
4		60
5	61	61
6	62	
7	73	78
8	107	
9,10	118	
11		128
12	130	132
13	136	
14	213	

EXHIBIT INDEX

219A

	<u>Defendant</u>	<u>Identification</u>	<u>In Evidence</u>
1			
2			
3	A		11A
4	B	26	29
5	C		47
6	D		183
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

FINDINGS AND CONCLUSIONS OF BRIEANT, D.J.

Brieant, J.

N.Y.

3 PM '75

COURT

258a

By their complaint, filed January 17, 1973, plaintiffs stated a claim based upon claimed violations of §§14(a) and 27 of the Securities Exchange Act of 1934 and certain rules and regulations adopted under that Act, mentioned below. As to that claim, this Court has exclusive subject matter jurisdiction. 15 U.S.C. §78aa.

Plaintiffs also pleaded a second count based upon §§515 and 810 of the Pennsylvania Business Corporation Law concerning appraisal of shares of dissenting owners. As to this second claim, the Court has pendent jurisdiction. A third claim was withdrawn prior to trial. This action was tried before the Court

MICROFILM

MAR 2 1975

SC without a jury on October 10 and 11, 1974, and decision reserved pending receipt of post-trial memoranda which have now been considered.

TH Certain facts have been stipulated, and need not be repeated here. In addition, familiarity with our memorandum
31 decision dated July 11, 1973 (361 F.Supp. 58) is assumed.

s Defendant ("Curtis") is a Pennsylvania corporation with its principal place of business in Indiana, although at all relevant times, Mr. Beurt R. SerVaas, Chairman of the Board and Chief
t Executive Officer, had his office at Philadelphia, Pennsylvania.
t Plaintiff Oscar Gruss and Son, a New York partnership, sometimes
1 referred to as Gruss and Son, is a stockbrokerage firm, and a
Member of the New York Stock Exchange. Plaintiff Oscar Gruss
("Mr. Gruss") is a general partner thereof.

At all relevant times Gruss and Son was the record holder of more than 12,560 shares of the \$4.00 Dividend Series, Preferred Stock of Curtis, and Mr. Gruss was the beneficial owner of that number of shares ("the stock"). Under date of July 27, 1972, Curtis sent a notice of Annual Meeting, and proxy solicitation materials to its shareholders of record, giving notice of a

meeting to be held in Philadelphia on September 14, 1972. Included among the stated purposes of the meeting was a vote upon the adoption of a plan of recapitalization. Among the many details of this plan was a provision for the mandatory conversion of each outstanding share of the aforementioned series of Preferred Stock into 1.54 shares of new common stock without par value. The plan also converted the \$1.60 Dividend Series, Prior Preferred Stock into 0.93 shares of new common stock, and effected a one for ten reverse split of the existing \$1.00 par value common stock into 0.10 shares of new common stock without par value. As a part of the plan, the company proposed to issue 9.84 shares of its new common for each \$100.00 principal amount of 6% subordinate income debentures due 1986. These debentures outstanding in the principal amount of \$6,455,000.00 carried approximately \$2,470,000.00 in accrued interest as of May 1, 1972. These debentures and the accrued interest would be eliminated as a liability of Curtis, and all accrued but unpaid Preferred Stock dividends were also eliminated.^{1/}

The proxy statement at p.49 attempted to summarize the appraisal rights granted to dissenting shareholders by the laws of

Pennsylvania. It provided in relevant part as follows:

"APPRAISAL RIGHTS

The Business Corporation Law of Pennsylvania sets forth certain rights and remedies applicable to holders of shares of Prior Preferred Stock of Curtis who may object to and desire to dissent from the cancellation of their right to receive dividends which have accrued but have not been declared. The following brief summary of such rights and remedies does not purport to be complete and is qualified in its entirety by reference to Section 810 and 515 of such law, a copy of which appears in Exhibit C hereto. Under such provisions, a holder of Prior Preferred Stock of Curtis who wishes to demand payment of the fair value of his shares must file with Curtis, prior to the commencement of voting by shareholders upon the Amended and Restated Articles of Incorporation, a written objection thereto and must not vote in favor of this proposal. Voting against the proposal or giving a proxy to vote against it will not constitute such a written objection. In addition, such shareholder must, within 20 days after the date on which the vote on this proposal was taken, make written demand on Curtis for payment of the fair value of his shares, stating the number and class and series, if any, of the shares owned by him with respect to which he dissents. Within 20 days after such demand, such shareholder must submit his certificate or certificates to Curtis for notation that such demand has been made." (Emphasis added.)

At page 92, certain statutory provisions of the Pennsylvania Business Corporation Law providing for dissenters' rights were

set forth. The words of the statute, as copied, read "the holder of any outstanding shares ... who shall object to such amendment and comply with section 515 of this act."

(Emphasis added.)

Exhibit 1, a letter under date of September 12, 1972, was prepared at Mr. Gruss' direction by Julius Anreder, a securities analyst employed at Gruss and Son. After concluding that it would be desirable for Mr. Gruss to exercise dissenters' rights and demand payment of the fair value of his shares, Anreder, an intelligent person having a reasonable degree of experience in such matters, and having read Curtis' proxy solicitation materials carefully, wrote the letter for Mr. Gruss, who signed it, and sent it registered mail to Mr. SerVaas. In reliance on a fair interpretation of the portion of the proxy statement which relates to dissenters' rights, Anreder, acting for Gruss, concluded that the beneficial owner could exercise the dissenter's rights. He took all reasonable and necessary steps to protect Mr. Gruss' rights in the matter by complying with the first condition precedent of the Pennsylvania statute.

The letter of September 12th, (Exhibit 1), was actually

received by Mrs. Margaret B. Wilkinson, who was the personal secretary to Mr. SerVaas, and was also Vice President and corporate Secretary of Curtis. Mr. SerVaas was one of the persons designated to act as proxy on Curtis' official proxy form, which contained provisions by which a holder could direct his vote for or against the plan of recapitalization.

The September 12th letter reached Mrs. Wilkinson prior to the shareholders meeting. She remembers receiving it. After the litigation was commenced, the original letter and envelope was found in the files of Curtis' Philadelphia attorneys, unaccompanied by any proxy form.

I find that Mrs. Wilkinson delivered the letter and its original envelope to the Philadelphia attorneys for Curtis. Mrs. Wilkinson is an experienced business executive, holding a responsible job which requires substantial secretarial capabilities. The letter on its face says that a negative proxy is enclosed, and at the bottom left hand corner of the letter the customary legend "Enc." appears. Ordinary business practice would require an experienced executive secretary on receiving such a letter

to observe the absence of the claimed enclosure, if in fact the enclosure was missing. Ordinary business practice also would have required her to write or telephone the sender of the letter to the effect that no enclosure was found as indicated. Undoubtedly in passing such a letter along to Curtis' attorneys she would have placed thereon a notation "received without enclosure." In the absence of any evidence to the contrary, I find, in reliance on the testimony of Anreder, Mr. Gruss and Mrs. Wilkinson, and a presumption of regularity which flows from the ordinary business practices of stockbrokerage firms which regularly issue proxies on shares held in the cage, that the valid negative proxy was in fact enclosed with Exhibit 1, and was in fact received by the Secretary of Curtis prior to the shareholders meeting.

This negative proxy was never voted, as is apparent from the total certified vote of the election. However, plaintiffs, relying, through Anreder, on the proxy statement, had done all they were reasonably required to do under the circumstances, to vote negatively, and to object in compliance with the statute. The failure of the corporate Secretary or the proxies named in the negative proxy form to cause a negative vote to be cast for plaintiffs is unexplained.

On September 21, 1972, again acting with the advice and counsel of his agent and employee, Anreuer, Mr. Gruss wrote SerVaas again, making demand on the company for the payment of the fair value of his shares, as a dissenting shareholder. There were forwarded separately at the same time, certificates for shares registered in the name of Gruss and Son (for a total of 10 more shares than those belonging to Mr. Gruss) for notation thereon of plaintiff's demand as to his stock ownership. The partnership sent a separate covering letter to Mr. SerVaas, forwarding the shares.

Curtis rejected plaintiffs' claims because the dissenters rights were sought to be exercised by Mr. Oscar Gruss, the beneficial owner, rather than by Oscar Gruss and Son, his nominee and the owner of record. With respect to proxy solicitation material, a corporation is entitled to deal in all respects with its shareholders of record. See Vol. 2, Loss, Securities Regulation, p.876 and Vol. 5, Fletchers Cyclopedia, Corporations, §§2007, 2053. However, corporations issuing proxy statements know that in many cases shares are held of record by broker-dealers, banks, voting trustees, or their nominees, and that it is the custom

and practice of such holders of record to forward proxy solicitation materials to the beneficial owners, and to seek from such clients authority and instructions as to how to vote with respect to controversial matters. Indeed, by 17 C.F.R. 240.14a-3(12)d, which became effective December 20, 1974, and is not retrospective, the Securities and Exchange Commission required issuers to supply record holders "with additional copies [of proxy soliciting material] in such quantities, assembled in such form and at such a place, as a record holder may reasonably request in order to address and send one copy of each to each beneficial owner of securities so held," and to pay the reasonable expenses therefor.

Accordingly, Curtis knew that the proxy statement would fall into the hands of beneficial owners, to be read and relied on by them.

There is conflicting usage of the word "holder" and its variants in the proxy solicitation materials. At some points, references to "holders" of stock intend clearly to mean beneficial holders, see e.g. "Tax Consequences", and "Fractional Shares", p.12. Elsewhere, the unqualified term means holders of record; see pp.9,

10 of Exhibit 2.

The rule established at 17 C.F.R. §240.14a-101, item 2, requires proxy soliciting materials to advise with at least comprehensible clarity "... any statutory procedure required to be followed by dissenting security holders in order to perfect [their] rights." The SEC uses "holder" in its various Regulations in an ambiguous fashion, and interchangeably to denote beneficial and record owners. For example, §240.13d-4 ("a security holder who ... was the beneficial owner of more than 5 percent...."); §240.14a-3 ("Information to be furnished to security holders."); §240.14a-8 ("Proposals of security holders.").

In this respect, the proxy statement was misleading with respect to a material fact, and omitted to state a material fact necessary in order to make the statements therein not false or misleading, all as required by Rules 14(a)-9a, ^{and 101} promulgated under the Securities Exchange Act of 1934.

I find that the omitted fact, namely that the statutory procedure was available only to the shareholder of record as distinguished from the beneficial owner or holder, was "material in the sense that a reasonable investor might have considered [the

fact] important in making his investment decisions." Schlick v. Penn-Dixie Cement Corp., 507 F.2d 374, 381 (2d Cir. 1974). See also Chris-Craft Industries, Inc. v. Piper Aircraft Corp., 480 F.2d 341, 374 (2d Cir. 1973).

These proxy solicitation materials gave incomplete information, and created a typical "trap for the unwary." Mr. Gruss, and his agent Anreder relied on the misleading information, and as a result, Curtis, issuer of the proxy statement which the Court finds misleading, was placed in a position where it could and did refuse to recognize Gruss' timely assertion of the right of appraisal simply because the objection had not been made by the "holder of record", and was therefore not in compliance with the applicable provisions of state law.

It would have been entirely practicable, and relatively simple for Curtis to have advised in the proxy statement that the appraisal rights could be exercised only by a shareholder of record. Also, in this case, it would have been relatively simple for Anreder and Mr. Gruss, had they known of the importance, to have made certain that the exercise of the dissenters' right was signed by the record owner. The record owner was controlled by Mr. Gruss,

in the sense that as a general partner he could have executed any document in behalf of the partnership record owner, and thereby could have exercised the appraisal rights granted by the Pennsylvania statute. It was, in effect, his alter ego. He himself could have signed its name, and would have, had he known of the trap.

The Prior Proxy

On August 22, 1972, a proxy form bearing a rubber stamp of the sort used at the office of Oscar Gruss and Son was signed with the firm signature and sent to or collected by Curtis. This proxy did not designate a vote as to any of the four matters listed thereon, but did provide that if no instructions were specified, the proxies would vote in favor of the plan of recapitalization, and therefore this must be considered an affirmative vote. Plaintiffs deny execution of or validity of the proxy.

I am satisfied upon all the evidence before me that it was in fact executed at the office of Oscar Gruss and Son at 80 Pine Street in New York City, and was in fact received by Curtis in the regular course of business and used by SerVaas and the other two persons thereon named, to vote for the plan at the meeting

on September 14th. I infer that the proxy was regularly issued, and that the persons issuing it had at least apparent authority. Be that as it may, SerVaas, to whom the authority of the proxy was granted, by whomever signed it on August 22nd, had knowledge of all the relevant facts concerning these shares of stock and the desire of its owner to vote negatively. He was placed on actual and constructive notice, as was Curtis, by the receipt by Mrs. Wilkinson of Exhibit 1, addressed to SerVaas and sent by registered mail, which arrived prior to the meeting.

It is generally accepted that the proxy issued latest in time revokes prior proxies. Although we find no clear authority in Pennsylvania law, general principles of the law of agency and the requirements of equitable dealings between principal and agent are such as to require Curtis, and its management proxies, SerVaas, et al, to be deemed placed upon notice of the infirmity of the prior proxy, and the desire of their principal to vote negatively. A person designated as a proxy is an agent for the person whose vote he casts, and must deal with his principal in accordance with requirements of loyalty and good faith. While a person voting for the reorganization would be estopped from claiming dissenters'

rights, I find that under all the surrounding circumstances, plaintiffs' shares should not have been voted for the plan, and that the affirmative proxy, Exhibit A, was validly revoked prior to the convening of the shareholders meeting.^{2/} Accordingly, the affirmative defense pleaded in this action lacks merit.

Measure of Damages

The measure of damages is compensatory. Plaintiffs are entitled to be placed in the same position they would have enjoyed had they received correct information in the proxy statement, voted against the plan, and pursued their dissenting shareholders' rights of appraisal under the Pennsylvania statute. Briefly stated, that statute requires that if the parties are unable to agree, the stock be appraised at the fair value "as of the day prior to the date on which the vote was taken, without regard to any depreciation or appreciation thereof in consequence of the plan," with "such interest as the Court may find to be fair and equitable in all the circumstances." The Pennsylvania statute also provides for the costs and expenses of any such proceeding [but not legal fees] to be determined by the Court and assessed

against the corporation, subject to apportionment against dissenting shareholders under circumstances not relevant here. Expenses include reasonable compensation of appraisers, and if no offer was made, the Court may in its discretion, award to any shareholder compensation for any expert employed by the shareholder.

Amount of Damages

Compensatory damages will award the plaintiffs what would have been recovered had a proper election been made in timely fashion by the shareholder of record to pursue the remedies granted to a dissenting shareholder under the Pennsylvania statute. This the Court finds plaintiffs would have done had they received a proxy notice which was not misleading. There is no basis to assume that, as required by Pennsylvania law, Curtis would have made an offer to these plaintiffs in any amount. Defendant's defense of this litigation indicates otherwise, and it would be speculative to assume either that an offer would be made, or that if made, it would be accepted. Accordingly, the Court will attempt to fix the value in accordance with the Pennsylvania statute in the same fashion as that court would do had plaintiffs pursued

their aforementioned remedy there.

Plaintiffs' expert on valuation, Julius Anreder, is a qualified securities analyst. Since 1962 he has been employed at Gruss and Son as the Director of Research. He is a Chartered Financial Analyst, a member of the New York Society of Security Analysts, and a Registered Representative of the New York Stock Exchange. Anreder examined the prospectus for the Exchange offer, and also a similar prospectus furnished to holders of Curtis' debentures, whose assent to the plan of recapitalization was sought. These documents contain substantial financial information (Exhibits 2 and 7). He also relied on the annual reports of Curtis, and the result of an interview with Mr. SerVaas, Chief Executive Officer of Curtis, which took place on June 23, 1971

Initially, Anreder took the view that under the peculiar circumstances affecting Curtis, which had endured severe financial difficulties in the recent past, the valuation of the common stock was the key issue; and that, in effect, so long as the common stock had value, the Prior Preferred Stock could be valued based upon consideration of the common stock value.

The Preferred Stock was callable at \$65.00 per share,

plus accrued dividends, which at the time of the recapitalization amounted to \$30.75 per share. Under the plan as proposed, on a statistical or mathematical basis, the \$4.00 Preferred was worth \$4.80 immediately prior to the transaction, compared with the selling price of the common, while selling in the market for \$3.00. Any arbitrage between these disparate prices would, however, depend upon knowledge to a certainty, that the plan of recapitalization was going to be completed, an assumption apparently not held by the totality of diverse opinion which makes the market.

Anreder also considered the fact that Curtis had a royalty agreement with respect to property at Timmins, Canada, sold to Texas Gulf Sulphur Company for the mining of various ores. This famous property has produced more litigation than minerals. [Cf. Securities and Exchange Commission v. Texas Gulf Sulphur Co., 258 F.Supp. 262 (S.D.N.Y. 1966), aff'd in part and rev'd in part, 401 F.2d 833 (2d Cir. 1968) (en banc), on remand, 312 F.Supp. 77 (S.D.N.Y. 1970), aff'd in part and rev'd in part, 446 F.2d 1301 (2d Cir.), cert. denied 404 U.S. 1005 (1971); Mitchell v. Texas Gulf Sulphur Co., 446 F.2d 90 (10th Cir.), cert. denied 404 U.S. 1004 (1971); Astor v. Texas Gulf Sulphur Co., 306 F.Supp. 1333 (S.D.N.Y. 1969); Fink v. Coates, 323 F.Supp. 988 (S.D.N.Y. 1971).]

The Timmins property was carried at nominal value on Curtis' financial statements (see Exhibit 11, p.2). Curtis had an appraisal in its possession which suggested in the opinion of the experts preparing the appraisal that Curtis' mineral royalty had a market value of between \$2,000,000.00 and \$4,400,000.00. Ultimately, in 1974 these rights were sold for \$1,000,000.00 in cash.

Anreder relied primarily on the market price of the common stock. As part of his efforts to value the stock, Anreder assumed a hypothetical recapitalization. He first testified that there was no necessity for Curtis to have any plan of recapitalization in order to be maintained as a going business. But he testified that in order to arrive at a valuation in his own mind, it was necessary to assume a hypothetical plan. The Court ruled at the trial that there was no basis in fact for any hypothetical plan, and that the hypothetical plan was not competent evidence of value, and could not be used to support a theory of valuation. The Court adheres to that ruling. See Sparkill Realty Corporation v. State, 268 N.Y. 192 (1935). See also United States v. Five Acres of Land, 50 F.Supp. 69 (E.D.N.Y. 1943).

Counsel withdrew the witness from the stand overnight,

and he returned the following day to give valuation testimony based on a different theory. The Court ruled (Tr. p.102) that the expert witness could consider and testify with respect to all the relevant factors, including the liquidation rights, the yield, the foreseeable likelihood that the cumulative dividends would be paid, the foreseeable future prospects of the company, and whether it can stay in business, as well as market price.

In his revised approach, Anreder considered the fact that the Saturday Evening Post Magazine had been reintroduced to the public in 1971 on a quarterly basis and had about reached a break-even point in the first quarter of 1972. Historically, it was the failure, due to changing times, of this and other magazines which dragged Curtis down to its low financial condition prior to the recapitalization. He found that the historical market price of the \$4.00 Preferred was \$4.65 over the prior 18 month period, and furthermore, that disallowing the interest charge for the debentures, which was contingent and not being paid, the company itself was practically operating on a break-even basis. Anreder testified, and I find, that the company was "not in the position of having the wolf at the door ... that they could keep the company ... going, until the Saturday Evening Post took

off ... one of the [alternatives available to management] was to just continue operating the company." (Tr. p.122).

The witness considered that progress had been made under the capable leadership of Mr. SerVaas, who had achieved outstanding business success in an unrelated industry. Substantial litigation affecting the company had been settled, and the balance sheet had been streamlined. In an interview with Anreder on June 23, 1971, SerVaas expressed the opinion that "the company is now not losing money and that he can keep it going indefinitely." (Tr. p.216).

Curtis received an appraisal of the Timmins mining property dated June 16, 1971, prepared by Albert J. Grisser Company. The annual report of Curtis for 1973 (Exhibit 11) shows that Curtis commissioned the making of the report or appraisal and adopted it at least to the extent that it referred to the report in its annual report to shareholders and presented it as valid opinion. Under the circumstances of this case the Court regards the mining appraisal, at least to the extent of the lower end of the range of value, or \$2,000,000.00, as an adopted admission against interest binding on Curtis. This may bear upon the net

worth of the corporation, but simply because a publishing company owns a mining royalty, not producing any ore, which has a particular value, does not necessarily transmit itself directly and pro tanto to the value of its various issues of stock. The presence of this non-productive and illiquid asset is however a factor which Anreder properly could and did consider in reaching his appraisal, and which the Court may consider. As noted supra, p.18, in 1974, Curtis sold the mining rights for \$1,000,000.00. Anreder reached the conclusion that the shares were worth \$15.00 a share.

Defendant's expert, Fred Shinagel, was likewise a qualified financial analyst. He examined the stock exchange records and the proxy statement as well as the exchange offer to the debentureholders of Curtis and the trading record in common and preferred stock for the year 1972. He considered the company short of working capital and noted that except for one year it had experienced no earnings for a ten year period. Its current assets virtually equalled its current liabilities, and its book value of common shares was negative to the extent of \$13,000,000.00, because of accrued Preferred dividends and accrued unpaid debenture interest. He regarded Curtis as substantially insolvent and

believed that those whose interests were junior to the debentures would receive nothing in an immediate liquidation. Curtis' accountants had refused to render a firm opinion as to its financials, but the Court takes the financials as true for purposes of this litigation, there being no evidence to the contrary. Publication of such financials is at least an admission against interest by Curtis. Shinagel regarded the company as "virtually dead." (Tr. p.167). Before the Preferred arrearages could be paid, the income debentures had to be paid interest arrears of approximately \$30.00 per \$100.00 bond, amounting to \$2,500,000.00.

Curtis had a very substantial tax loss carry forward and a large number of unsettled lawsuits, the existence of which, in Shinagel's view, diminished the value of the tax loss carried forward. He believed that the company was a "totally speculative medium" and had a total market value of \$1 to \$2 million dollars, and that without the conversion of debentures, the total ownership of the common stock was worth \$1,000,000.00 (Tr. p.172). Because of the speculative aspects of the company's business, and its tax loss carry forward, these separate statements are not so inconsistent as they appear.

Implicit is a conclusion by defendant's expert that the company could have continued in existence at least until the maturity of the debentures. See Tr. p.178 at which the defendant's witness Shinagel assumes a value in the equity. The preference rights excluded the common stock, unless the company survived.

The highest value which can be substantiated by the market itself is \$4.75 per share. The market showed a high of 4-3/4 in June 1972, before the proxy material was available, or the plan known. After the proxy material had been circulated, and in August, the stock hit a low of 2 1/8. The high and low during the first quarter of 1971 was \$9.00 and \$5.00, respectively. In 1970; 5-5/8 and 1-3/8, and in 1969; 32 and 5-7/8. In 1968 it was 43-1/4 and 23-7/8.

During the 18 month period prior to the recapitalization the volume of trades was relatively slight. This does not detract from a conclusion that market price reflected a consensus of the market makers as to the future prospects of Curtis, the likelihood that it would stay in business, and ultimately be in a position to pay its accrued dividends on the Preferred Stock. Although there is no doubt that it would take as much as a year to dispose of

12,000 shares during 1972 without unduly depressing the market, this factor is entitled to very slight weight because this appraisal is based upon the fair investment value of the stock, and the implicit assumption that the holder would have continued to hold the stock but for the plan of recapitalization.

"[T]he theory of the dissenter's claim is that he desires a continuation of his investment unaffected by the change.

The resultant valuations have generally concentrated on three principal elements: (1) net asset value; (2) market value; and (3) investment (or earnings) value. Most courts have considered all three...." 79 Harv.L.Rev. 1456-57, Valuation of Dissenter's Stock (1966).

See also 15 Fletcher Cyclopedia Corporations, 1973 Revised Volume, §7165.4, p.294:

"The courts must determine the value of the shares of dissenting stockholders.... Appraisal must be upon a going concern basis rather than upon a liquidation basis.

While there is no legal formula which can be enunciated or applied in valuation proceedings, the appraisal remaining a matter of judgment on the facts in each case, the court can reiterate accepted principles, which simply stated, are that the appraisal should take account of market value, investment value, and net asset value."

Prior to 1971, Curtis had sold or otherwise disposed of

the major portion of its properties, and the remaining business of the company, operated by a wholly owned subsidiary on December 31, 1971, and at the time of the meeting, consisted of the publication of Holiday Magazine, Jack and Jill Magazine and the revived quarterly publication, Saturday Evening Post. As previously noted, these magazines had a profit for the three months ending March 31, 1972, having suffered substantial losses in the three prior years. The company had had an operating loss for all recent fiscal periods to the date of the meeting, except that it earned \$.31 per common share in 1971 due to extraordinary items, resulting from the sale of fixed assets at prices greater than book value. Under its system of accounting, all expenses attributable to publications were considered as a period cost, and expensed when incurred, but revenues were recorded upon publication of an issue.

While the respective experts agree on many of the underlying facts, which the Court, as previously noted, accepts as true, their ultimate conclusions differ substantially. Defendant's expert's conclusion that stock selling at \$4.75 per share within a reasonable time prior to the announcement of the plan had a value

of only \$.50 must be rejected as unfounded and unreasonable.

Plaintiffs' expert attempted to distill from all of the relevant facts, based upon his judgment and experience, a fair or intrinsic value of \$15.00 per share.

The Court regards this figure as a reasonable appraisal of the stock under all of the circumstances, and has attempted to test it by time honored principles of valuation. Although Curtis had been unable to pay any dividends on its common stock since 1960, and was in arrears on its \$4.00 Preferred for approximately ten years, the Preferred had sold during 1969 at a high of \$32.00 per share, and in 1968 at a high of \$43.25 per share. The entire record justifies a conclusion that but for the recapitalization, Curtis could have continued in business at least until October 1, 1986, when an act of default most likely would have occurred with respect to the debentures.^{3/} The experts agree that the common stock had value. A fortiori, so did the Preferred. Curtis' prognosis for the balance of the period was more favorable than that of the recent past. In 1986 Preferred shareholders would have been entitled to their redemption price of \$65.00, and a true dividend of \$69.75, which they would have received on a liquidation after the debentureholders, assuming the common stock had any value

in 1986, and assuming as we must, that when the debentures came due, or earlier, Curtis would either have to liquidate, or develop some acceptable alternative to liquidation.

Taking a per share value in 1986 for the Preferred Stock, including accrued cumulative dividends of \$134.75, we turn to Table B in 26 C.F.R. §20.2031-10, a table promulgated by the Department of the Treasury showing the present worth at 6% of a remainder interest postponed for a term certain. The discounted factor for the value of such a remainder interest is .468839, leading to a discounted present value at the end of 1972 of \$63.18.

This computed figure must be reduced substantially to allow for a foreseeable contingency, that is the failure, dissolution or bankruptcy of this speculative enterprise, prior to the scheduled day of reckoning with the debentureholders. Conservatively, Curtis had a 25% likelihood of survival and full payment. Such an assumption is not unreasonable under the circumstances of this case, and would lead to an assumed current market value of \$15.80, which is so close to the expert opinion expressed by the witness Anreder as to exclude cavil.

Accordingly, the Court finds the actual value of

plaintiffs' shares on September 13, 1972 to be \$188,400.00 [12,560 x \$15.00], for which sum plaintiff Mr. Oscar Gruss shall have judgment. Plaintiff Gruss and Son is entitled to no relief. To the foregoing sum we add a reasonable allowance of \$1,500.00 for the appraiser's services. Mr. Shinagel's appraiser's fee, negotiated at arms length, was \$750.00 per day. The Court considers Anreder's ability and qualifications substantially equal to those of Shinagel. Although the witness spent two days in Court, his work reasonably should have required no more than a total of two days for study and testimony.

There remains for consideration the question of pre-judgment interest. Defendant rejected plaintiffs' demand on September 22, 1972, and the Court believes that had defendant honored plaintiffs' demands for the appraised value, which presumably it would have done had plaintiffs complied with the Pennsylvania statute, defendant would have required a period of approximately 90 days following September 22, 1972 to effect appraisal and payment. Accordingly, plaintiff, Mr. Oscar Gruss, shall recover pre-judgment interest on the sum of \$188,400.00 from December 21, 1972 until the date of entry of judgment, together with those costs customarily taxable in this Court in actions at law.

Second Claim

Plaintiffs, as previously noted, failed to comply with the Pennsylvania statute aforementioned because the objection was not executed by the holder of record. Defendant is entitled to judgment on the second cause of action pleaded.

Conclusion

The parties may, if so advised, provide in the final judgment which shall be settled on five (5) days notice that plaintiffs shall deposit the original stock certificates, in good form for transfer, with the Clerk of this Court, to be delivered to defendant for cancellation when the judgment is satisfied.

The foregoing constitutes the findings of fact and conclusions of law of the Court pursuant to Rule 52, F.R.Civ.P.

Dated: New York, New York
March 21, 1975

Charles L. Briant, Jr.
CHARLES L. BRIANT, JR.
U. S. D. J.

1. Although this interest was fully cumulative and payable in any event at maturity of the debentures on October 1, 1986, no interest was required to be paid unless current net income of the preceding calendar year was sufficient to do so. Curtis was prohibited from paying cash dividends on any other class of stock until all interest payments on the debentures were current, but had not committed any act of default which would accelerate debenture principal, or cause Curtis to be bankrupted.
2. Section 504 of the Pennsylvania Business Corporation Law provides in effect that a proxy may be revoked by notice to the Secretary of the corporation at any time before the vote is taken. At p. 8 of the proxy statement, shareholders were informed that revocation must be by written notice. If so, the notice of revocation in this case was sufficient because of the receipt of Exhibit 1 and its enclosure by Curtis prior to the meeting.
3. On October 1, 1986 the principal and contingent interest on the debentures became due and enforceable.

DEFENDANT'S ORDER TO SHOW CAUSE FOR AN ORDER AMENDING THE FINDINGS
AND CONCLUSIONS AND AMENDING THE JUDGMENT, WITH MEMO ENDORSED
STAYING ENFORCEMENT OF THE JUDGMENT (Filed April 17, 1975)

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----x Docket No. 73 Civil 282

OSCAR GRUSS and OSCAR GRUSS & SON,

Plaintiffs,

-against-

THE CURTIS PUBLISHING COMPANY,

Defendant.

ORDER TO SHOW CAUSE

WITH A STAY

-----x

Upon the annexed affidavit of THEODORE L. MARKS, duly sworn to the 17th day of April, 1975, the final judgment entered on April 10, 1975, and findings of fact and conclusions of law dated March 21, 1975, and upon all prior papers and proceedings heretofore had herein, it is hereby

ORDERED, that the plaintiffs, OSCAR GRUSS and OSCAR GRUSS & SON, or their attorneys herein show cause before HON. CHARLES L. BRIEANT, JR., U.S. District Judge, at Room 519, United States Courthouse, Foley Square, New York, on the 18th day of *April*, 1975, at ^{10:15} o'clock in the *fore* noon of that day, or as soon thereafter as counsel can be heard why an order should not be made and entered granting to defendant the following relief:

1. To have the findings of fact and conclusions of law

dated March 21, 1975, amended and to make additional findings and conclusions and/or to amend the judgment entered April 10, 1975, pursuant to Rule 52 F.R.C.P.; and

2. For an order granting a new trial or amending the findings of fact and conclusions of law, or making new findings and conclusions, and for the entry of a new judgment, pursuant to Rule 59 of F.R.C.P.; and

3. For a stay of execution of the judgment entered herein pursuant to Rule 62 (b) F.R.C.P. and, pending the determination of this motion;
and it is further

ORDERED, that the plaintiffs be and they hereby are stayed from execution of or any proceedings to enforce the judgment until ~~ten (10) days following~~ the entry of an order determining this motion, subject to any extension of such stay as may be subsequently directed by this Court, and it is further

~~ORDERED, that defendant's attorneys may serve and file a supplemental Memorandum of Law respecting this motion on or before the day of , 1975, and it is further~~

ORDERED, that ^{personal} service of a copy of this order together with copies of the papers upon which it was granted, upon

289a

KASS, GOODKIND, WECHSLER & GERSTEIN, plaintiffs' attorneys, on or
before the 17th day of April, 1975, ^{by 4:45 P.M.} shall be sufficient.

Dated: New York, New York
April 17, 1975.

s/ Charles L. Briant, Jr.
CHARLES L. BRIANT, JR.
U.S.D.J.

ISSUED 1:45 P.M.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----x Docket No. 73 Civil 282

OSCAR GRUSS and OSCAR GRUSS & SON,

Plaintiffs,

AFFIDAVIT

-against-

THE CURTIS PUBLISHING COMPANY,

Defendant.

-----x
STATE OF NEW YORK)
) SS:
COUNTY OF NEW YORK)

THEODORE L. MARKS, being duly sworn, deposes and says:

1. I am an attorney-at-law and a member of the firm of LEE, CASH & MARKS, attorneys for the defendant herein.

2. I make this affidavit in support of defendant's application for a stay of execution of the judgment in this action.

3. As is more fully described herein defendant, by this application, seeks a modification or amendment of the findings of fact, conclusions of law and judgment herein, as well as a new trial on certain issues determined by the Court. If defendant is successful in any aspect of this motion, the judgment entered on April 10, 1975, will become inoperative. It is respectfully suggested that plaintiff will suffer no prejudice by the short

stay occasioned by the pendency of this motion and further, fairness to defendant dictates the maintenance of a "Status Quo". It would, therefore, seem unfair and inappropriate for plaintiffs to be taking steps to enforce and execute upon said judgment until such time as this motion is decided. Rule 62 (a) F.R.C.P. mandates an automatic stay of only ten (10) days following entry of the judgment. This Court has discretion pursuant to Rule 62 (b) F.R.C.P. to extend the stay pending disposition of the motion. Unless this Court exercises this discretion, there will be nothing to deter plaintiffs from their efforts at enforcement.

4. Insofar as any possible jeopardy to plaintiff's eventual recovery, I respectfully point out to the Court that defendant is a going public company, with its stock being publicly traded on an accredited stock exchange. There is no prospect whatsoever of liquidation or termination of business at this time. Accordingly, the continuation of the stay does no damage to plaintiff and serves to carry out the intent of Rule 62 (b).

5. Because of the necessity of staying the execution and enforcement of the judgment herein this application is being brought on by an order to show cause.

6. No previous application for similar relief sought has been made.

WHEREFORE, I respectfully urge that this Court grant defendant's application as above stated, and stay, without bond, the execution of the judgment pending the determination of this motion.

Sworn to before me this
17th day of April, 1975.

Mark Cash

Theodore L. Marks
Theodore L. Marks

MARK CASH
Notary Public, State of New York
No. 60-0594303
Qualified in Westchester County
Term Expires March 30, 1977

AFFIDAVIT OF HARRY L. SCHROEDER IN SUPPORT OF DEFENDANT'S
MOTION (Filed May 20, 1975)

293a

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----x 73 Civ. 282

OSCAR GRUSS and OSCAR GRUSS & SON,

Plaintiffs, AFFIDAVIT

-against-

THE CURTIS PUBLISHING COMPANY,

Defendant.

-----x

STATE OF INDIANA)
) SS:
COUNTY OF MARION)

HARRY L. SCHROEDER, being duly sworn, deposes and
says:

1. I am Secretary of THE CURTIS PUBLISHING COMPANY. I
have examined the folder styled "Appraisal Rights Exercises"
which is part of and contained in the "1972 Recapitalization"
files maintained by the Company. The documents which were con-
tained in that file relative to OSCAR GRUSS & SON have been pre-
viously removed. The file also contains original documents and
information relative to other exercises of appraisal rights which
are summarized as follows:

<u>Record Owner</u>	<u>Beneficial Owner</u>	<u>Disposition</u>
Merrill Lynch, Pierce, Fenner & Smith Inc.	Estate of Betty F. Goldblom	Withdrew request after notice and demand and prior to offer by Company (photo- copy of original documents attached)

DuPont Glore Forgan, Inc.	Undisclosed	Did not pursue after expressing dissent (Photocopy of original documents attached)
R.S. Watson	Same	Did not submit certificates for notation
Gula Glines Waterbury	Same	Did not submit certificates for notation
Donald & Doreen Wolf	Same	Withdrew request for appraisal rights after making demand
Helen A. Kotsull	Same	Did not pursue after expressing dissent
Fredinka Burkowitz	Same	Did not pursue after expressing dissent
Eleanor Dunning	Same	Accepted Company's offer of \$0.25 per share for 20 shares of \$4.00 Dividend Series Prior Preferred Stock
David O'Neal	Same	Stockholder failed to pursue his rights after he rejected Company's offer of \$0.25 per share for 400 shares of \$4.00 Dividend Series Preferred Stock
Michael Falek	Same	Withdrew request for appraisal rights after rejecting an offer of \$0.25 per share for 400 shares of \$4.00 Dividend Series Preferred Stock and \$0.10 per share for 400 shares of \$1.60 Dividend Series Preferred Stock
William A. Roesler & Anna M. Roesler	Same	Withdrew request for appraisal rights after rejecting an offer of \$0.25 per share for 70 shares of \$4.00 Dividend Series Preferred Stock

295a

Mary Louise Moss	Same	Withdrew request for appraisal rights after rejecting Company's offer of \$0.25 per share for 100 shares of \$4.00 Dividend Series Preferred Stock
Jerome Singer	Same	Expressed some displeasure with the proposed plan and made specific inquiries but did not seek to perfect appraisal rights
Stanley M. Goss Geraldine C. Goss	Same	Withdrew after expressing dissent and making demand, but prior to an offer by the Company.

Sworn to before me this

the day of May, 1975.

Harry L. Schroeder

Harry L. Schroeder

Freda M. McFarland
Notary Public

EXHIBITS ANNEXED TO FOREGOING AFFIDAVIT

duPont
Glore
Forgan
Incorporated

MEMBERS PRINCIPAL SECURITY AND COMMODITY EXCHANGES ONE WALL STREET, NEW YORK, N.Y. 10005 TELEPHONE (212) 344-2000

Sept. 11, 1972

Ms. Margaret B. Wilkinson, Secretary
The Curtis Publishing Company
% Dudley F. King & Co.
20 Exchange Place
New York, N.Y. 10005

Gentlemen:

This is to advise you that as of the record date for the Annual meeting of Stockholders of Curtis Publishing Company, we were the registered owners of 300 shares of \$4 Prior Preferred stock, certificate numbers, PA 6936/7 and PA 6922.

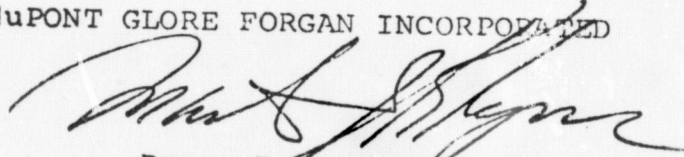
These shares are held by us for our client, the beneficial owner of the stock.

At the request of our client, the beneficial owner of the stock, we wish to express a dissent to the present plan as outlined in Sections 810 and 515 of the Business Corporation Law of Pennsylvania. And further advise you that these 300 shares of \$4 Prior Preferred are not being voted in favor of the proposal at the stockholder meeting which is scheduled to be held on September 14, 1972.

Kindly confirm receipt of this letter and keep us advised as required under Sections 810 and 515 of the Business Corporation Law of Pennsylvania.

Yours very truly,

duPONT GLORE FORGAN INCORPORATED



Proxy Department
Attention: M.J. Klym

MJK:jfd
cc: Ms. Wilkinson
Curtis Publishing Co.
1701 The Fidelity Bldg.
Philadelphia, Pa. 19109

EXHIBIT - LETTER OF MERRILL LYNCH, PIERCE, FENNER & SMITH, INC.
DATED SEPTEMBER 8, 1972

297a

70 PINE STREET
NEW YORK, N.Y. 10005
212 - TELEPHONE 944 1212

MERRILL LYNCH, PIERCE, FENNER & SMITH INC

September 8, 1972

Curtis Publishing
1701 The Fidelity Building
Philadelphia, Penn. 19109
Attention: Margaret B. Wilkinson

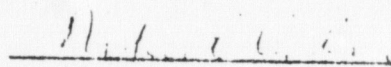
Dear Miss Wilkinson:

On behalf of our client, Estate of Betty F. Goldbloom, C/O Mr. Maurice Goldbloom, 305 West 28th Street, New York, New York, who is the beneficial owner of 600 shares of your prior Preferred Stock registered in the name of our Firm, we here by dissent to your proposed Amended and Restated Articles of Incorporation.

In accordance with the Business Corporation Law of Pennsylvania these shares have not been voted in favor of the proposal. Should the proposal be approved we shall within 20 days after its approval, demand payment of the fair value of said shares.

Please address all correspondence to my attention.

Yours very truly,


Robert Carlson
Proxy Section

RC:ra
cc: Estate of Betty F. Goldbloom
C/O Mr. Maurice Goldbloom
305 West 28th Street
New York, New York

EXHIBIT - LETTER OF MERRILL LYNCH, PIERCE, FENNER & SMITH
INC. DATED SEPTEMBER 11, 1972

298a

70 FINE STREET

NEW YORK, N.Y. 10005

212 - TELEPHONE 9-14 1212

MERRILL LYNCH, PIERCE, FENNER & SMITH INC

September 11, 1972

Curtis Publishing
1701 The Fidelity Building
Philadelphia, Penn. 19109

Attention: Margaret B. Wilkinson

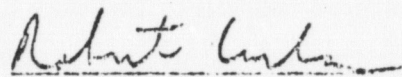
Dear Miss Wilkinson:

Reference is made to our letter dated 9-8-72 dissenting
on behalf of our client Mr. Maurice Goldbloom, 305 West
28th Street, New York, New York.

Please be advised that the 1000 shares are Curtis Publish-
ing Co. Prior Preferred Stock \$4.00 Dividend Series.

All correspondence should be addressed to my attention.

Yours very truly,



Robert Carlson
Proxy Section

RC:ra

cc: Mr. Maurice Goldbloom
305 West 28th Street
New York, New York

EXHIBIT - LETTER OF MERRILL LYNCH, PIERCE, FENNER & SMITH, INC. 299a
DATED SEPTEMBER 27, 1972

70 PINE STREET
NEW YORK, N.Y. 10005

212 - TELEPHONE 944 1212

MERRILL LYNCH, PIERCE, FENNER & SMITH INC

September 27, 1972

Curtis Publishing
1701 The Fidelity Building
Philadelphia, Penn. 19109

Attention: Margaret B. Wilkinson

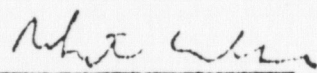
Dear Ms. Wilkinson:

Reference is made to the dissent filed on behalf of our customer Mr. Maurice Goldbloom. 305 West 28th Street, New York, New York, who is the beneficial owner of 1000 shares of your Prior Preferred Stock \$4. Dividend Series Stock registered in the name of our firm.

In accordance with the Business Corporation Law of Pennsylvania we hereby demand payment of the fair value of said shares.

Please address all correspondence to my attention.

Yours truly,


Robert Carlson
Proxy Section

RC:ra
cc: Mr. Maurice Goldbloom
305 West 28th Street
New York, New York

EXHIBIT - LETTER OF MERRILL, LYNCH, PIERCE, FENNER & SMITH, INC.
DATED OCTOBER 24, 1972

300a

70 FINE STREET

NEW YORK, N. Y. 10005

212 - TELEPHONE 944-1212

MERRILL LYNCH, PIERCE, FENNER & SMITH INC

Copy 2

October 24, 1972

Curtis Publishing
1701 The Fidelity Building
Philadelphia, Penn. 19109

Attention: Margaret B. Wilkinson

Dear Ms. Wilkinson:

Reference is made to the dissents we filed on behalf of our customers, Estate of Betty F. Goldbloom, C/O Mr. Maurice Goldbloom, 305 West 28th Street, New York, New York and Mr. Maurice Goldbloom, 305 West 28th Street, New York, New York.

Please be advised that our customers now wish to drop their dissents.

Yours truly,

Robert Carlson
Robert Carlson
Proxy Section

RC:ra

cc: Mr. Maurice Goldbloom
305 West 28th Street
New York, New York

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----x 73 Civ. 282

OSCAR GRUSS and OSCAR GRUSS & SON,

Plaintiffs,

-against-

AFFIDAVIT

THE CURTIS PUBLISHING COMPANY,

Defendant.

-----x

STATE OF INDIANA)
) SS:
COUNTY OF MARION)

BEURT SER VAAS, being duly sworn, deposes and says:

1. I make this affidavit in support of defendant's motions under Rules 52 and 59 FRCP. At all times hereinafter mentioned, and particularly during the summer of 1972, I served and continue to serve as President and chief executive officer of the defendant.

2. In August 1972, subsequent to the issuance by defendant of the proxy material which is the basis of this action, I received a telephone call from JULIUS ANREDER. Mr. Anreder stated that he had received the proxy material mailed to OSCAR GRUSS & SON. He further stated that he could only recommend favorable action respecting the recapitalization plan of defendant if he were elected to defendant's Board of Directors.

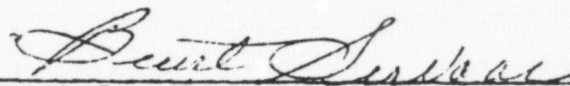
3. I told Mr. Anreder that his election to the

Board of Directors would be impossible; that the nominees for the Board had already been selected; that every member of the Board was there for a specific purpose; and that I did not control the Board or the company itself to the extent that I could dictate the election of Directors.

4. Mr. Anreder then stated to me that, under those circumstances, he and his employer would not support the recapitalization plan.

Sworn to before me this

7th day of ^{NINE} May, 1975.


Beurt Ser Vaas

Judith M. McFarland
Notary Public

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

- - - - - X
OSCAR GRUSS and OSCAR GRUSS & SON, :
Plaintiffs, : AFFIDAVIT
-against- :
THE CURTIS PUBLISHING COMPANY, :
Defendant. : 73 CIV 282
- - - - - X

AFFIDAVIT

COMMONWEALTH OF PENNSYLVANIA:
COUNTY OF PHILADELPHIA : SS.

HOWARD W. TAYLOR, JR., having been duly sworn according to law, deposes and says that:

1. He was admitted to practice before the bar of the Supreme Court of Pennsylvania in 1940, and became a member of the firm of Morgan, Lewis & Bockius in 1951.

2. During the course of his practice of law with the firm of Morgan, Lewis & Bockius he has been engaged primarily in the practice of corporate and securities law.

3. As such, he has on numerous occasions over the years of his practice drafted, participated in the drafting, or supervised the drafting of proxy statements and related materials and has also, on numerous occasions during those years, reviewed proxy statements and related materials prepared by other Pennsylvania law firms and lawyers.

4. He supervised the preparation of the proxy statement for The Curtis Publishing Company dated July 27, 1972.

5. The section of the proxy statement entitled "Appraisal

Rights", appearing on page 49 of the statement, which sets forth certain rights and remedies accruing to the holders of prior preferred stock of Curtis, pursuant to the Business Corporation Law of Pennsylvania, contains an articulation of those rights which is identical to the articulation used in other proxy statements, and is substantially identical to articulations of those rights generally used on other occasions by Morgan, Lewis & Bockius and other Pennsylvania law firms and lawyers.

6. He has on no occasion, prior to the institution of this action, seen an articulation of appraisal rights under the Business Corporation Law of Pennsylvania, either prepared by Morgan, Lewis & Bockius or by other Pennsylvania law firms or lawyers, which expressly states that the appraisal rights had to be exercised by the record holder, as opposed to the beneficial owner.

7. He knows of no occasion, prior to the institution of this action, when the propriety of omitting expressly to state that the appraisal rights had to be exercised by the record holder, as opposed to the beneficial owner, has been questioned by any person or court.

Howard W. Taylor, Jr.

HOWARD W. TAYLOR, JR.

Sworn to and subscribed

before me this 19th day

of May, 1975.

Annette M. Lopresti
Notary Public

ANNETTE M. LOPRESTI

Notary Public, State of Pennsylvania Co.

My Comm. Exp. May 8, 1978

AFFIDAVIT OF JULIUS ANREDER IN OPPOSITION TO DEFENDANT'S
MOTION (Filed June 10, 1975)

305a

Rec. by Hauer June 10/75

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

----- X

OSCAR GRUSS and OSCAR GRUSS & SON,

Plaintiffs,

73 Civ. 282 CLB

-against-

THE CURTIS PUBLISHING COMPANY,

AFFIDAVIT

Defendant.

----- X

STATE OF NEW YORK)
COUNTY OF NEW YORK) SS:

JULIUS ANREDER, being duly sworn, deposes and says:

1. I am an employee of Oscar Gruss & Son ("Gruss & Son"), one of the plaintiffs in this action, and I make this affidavit in opposition to defendant's motions under Rules 52 and 59 of the Federal Rules of Civil Procedure.

2. I have read the affidavit of Beurt Ser Vaas made in support of defendant's motions. The affidavit contains palpable untruths and can only be motivated by a desire to try to cast doubts on my motives, veracity and reliability as a witness. While everyone likes to win cases, there are ethical limits to the tactics one may reasonably employ and I am astonished by Mr. Ser Vaas' affidavit in this regard.

The following are my more specific comments on the Ser Vaas affidavit:

(a) I never called Mr. Ser Vaas in August, 1972, or at any other time, to state that I would recommend favorable action respecting the recapitalization plan of defendant only if I were elected to defendant's board of directors. I never made

such a statement in those words or words of similar import Mr. Ser Vaas' statement to the contrary, is simply untrue.

(b) Assuming for the sake of argument that I had made such a statement to Mr. Ser Vaas, it would have been meaningless since Oscar Gruss ("Mr. Gruss") would have voted for or against the Plan of Recapitalization, based on his own interests. To believe otherwise is to believe that instead of Mr. Gruss being the senior partner of Gruss & Son and I being an employee, our roles were reversed.

(c) Assuming for the sake of argument, that I had told Mr. Ser Vaas that Mr. Gruss would object unless I were elected as a director, such statement would be irrelevant to this litigation. In trying to object to the Plan of Recapitalization and assert appraisal rights, Mr. Gruss (and I, attempting to assist him at his request) fell into the "trap" created by the proxy statement. As a result, defendant refused to recognize Mr. Gruss' attempted exercise of those rights. Even if Mr. Gruss had objected because I was denied membership on defendant's board (which is so ridiculous on its face that I am amazed Mr. Ser Vaas advances such a contention), it is defendant's breach of duty which prevented him from objecting and exercising dissenter rights which is at issue, not his reasons for objecting.

(d) If Mr. Gruss' reasons for objecting were relevant, the fact is that he did not wish to object because I was not elected a director. He wished to object because the

Plan was inequitable to the holders of the \$4 Dividend Series Prior Preferred Stock. It deprived them of their liquidation and dividend preference rights. It not only substituted common stock which did not have such rights but treated the holders of the \$1.60 Dividend Series Prior Preferred Stock significantly better in that they received a disproportionately larger number of shares of Common Stock. It should be noted, parenthetically, that the proxy statement of defendant submitted in evidence reveals that Mr. Ser Vaas held a substantial amount of \$1.60 Dividend Series Prior Preferred Stock. In other words, Mr. Gruss, an experienced and astute investor, refused to agree to the proposed recapitalization for sound reasons. Accordingly, he directed me to do what was required in his behalf to object and demand appraisal rights.

3. Plaintiffs' attorneys advise me that defendant, in its motions, has attacked my valuation of the \$4 Preferred Stock as an expert witness. Additional evidence that my valuation was reasonable and represented the intrinsic value of that stock is borne out by a letter sent by Mr. Ser Vaas to defendant's stockholders on or about April 29, 1975 (more than 6 months after the trial was concluded). That letter was included in defendant's 1974 Annual Report to shareholders and a copy is annexed hereto as Exhibit A.

The items to which I looked in valuing the \$4 Preferred Stock of defendant as of September 13, 1972 are contained in the trial transcript and are described in plaintiffs' memorandum of law submitted in opposition to defendant's motion. It is interesting to note how accurate my analysis and forecast have proved. In this regard I would like to compare certain passages from Mr. Ser Vaas' letter to the portions of my testimony:

A. SER VAAS LETTER

"The company's sales increased approximately 25% in 1974, reflecting continued strong interest in our published products. Since our reorganization in 1972, Curtis sales have increased 85%, good evidence that the company is well on its way toward regaining stature as a major national publications organization . . .

"The Saturday Evening Post, the Curtis 'flagship,' begins its 247th year, battered by last year's inflation but even stronger in the hearts of subscribers. Over half of the company's revenues are derived from sales of Post subscriptions and advertising."

ANDREDER TESTIMONY

" . . . I looked at the earnings records and the balance sheets of the company, and one thing that I noted in the earnings statement, which gave me a little bit of heart, was the fact that since the company had reintroduced The Saturday Evening Post in 1971 on a four-quarter basis, it had been carried from a start-up expense loss to about a breakeven point in the first quarter of 1972.

"As a matter of fact, if you look at the earnings statement of the company as put out there, if you disallow the interest charge for the bond interest, which was not being paid anyhow, the company was practically on a total breakeven basis.

"And I don't remember this specifically, but it seems to me there were indications that the company had indicated that they were going to increase the frequency of The Saturday Evening Post. When it was initially published, it was sold strictly over the counter on magazine and newsstands, and it had been a success to the extent that the company decided that they could begin to accept subscriptions on it. So that indicated to me that it had gotten off the ground pretty much . . . "

"The fact that Curtis was not in the position of having the wolf at the door that they had to make the plan, that they could keep the company more-or-less going until The Saturday Evening Post took off. . . ." (Tr. at pp. 120-122).

B. SER VAAS LETTER

"In retrospect, 1974 was a year of growth and innovation, but also a time of trial as the Company, freshly recovered from a decade of decline and drift, sailed successfully through the heavy seas of paper shortages, unbelievable inflation and recession.

"Spirits at Curtis are high as we begin 1975
"

ANREDER TESTIMONY

"Another factor that I considered, that is going back to the ability of the company to continue as an ongoing company, was the progress that had been made under Mr. Ser Vaas' leadership in terms of eliminating substantial tax liabilities, in settling some substantial litigation which the company had when he took over. And he cleaned up the balance sheet quite considerably." (Tr. at p. 126).

C. SER VAAS LETTER

"In 1974, Curtis sold its royalty interest in certain properties in Ontario, Canada, near the Kidd Creek Mine, to Texasgulf Corporation for \$1,000,000

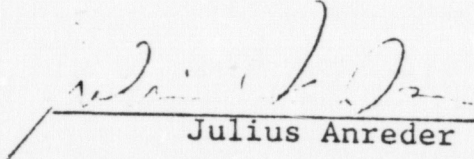
"The million dollars received from sale of its royalty rights permitted the Company to pay off most of its remaining longterm debts aside from debentures, and to add to its working capital."

ANREDER TESTIMONY

"The other factor which I took into consideration was that in the company's proxy material they mentioned that there was no basis in valuing the mineral rights up in Timmins, Ontario, but. . . I had known from experience that there might have been a substantial value, a residual in that" (Tr. at p. 122).

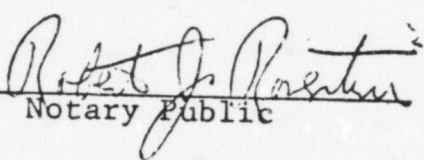
4. My expectation for the earnings potential of the company in general and The Saturday Evening Post in particular, have proved valid. In addition, the fact that I considered the

Timmins royalty rights (whereas the defendant carried them at a nominal value) indicate that my analysis of value was realistic. On the other hand, defendant's witness assigned no value to the Timmins royalty rights and valued the Company's total equity at \$1,000,000. His position was wholly unrealistic.


Julius Anreder

Sworn to before me this

10th day of June, 1975


Notary Public

ROBERT J. ROSENTHAL
Notary Public, State of New York
No. 41-3381725
Qualified in Queens County
Commission Expires March 30, 1977

FINANCIAL HIGHLIGHTS

Year ended December 31:

	1974	1973
Net Revenues	\$ 11,430,000	\$ 9,052,000
Income (Loss) Before Extraordinary item	\$ (664,000)	\$ 111,000
Net Income	\$ 170,000	\$ 111,000
Net Income per share	\$.07	\$.05
Shareholders deficit	\$ (5,429,000)	\$ (5,765,000)

PRESIDENT'S LETTER

Dear Shareholders:

The Company's sales increased approximately 25% in 1974, reflecting continued strong interest in our published products. Since our reorganization in 1972, Curtis sales have increased 85%, good evidence that the company is well on its way toward regaining stature as a major national publications organization.

Runaway inflation during 1974 was particularly severe on publishing firms whose subscriptions were sold previously at prices which would not sustain sudden increases in paper of 34%, ink increases of 36% and postage hikes of 20%. As a result, the Company experienced losses from its publishing operations. However, price increases on all published products have been accomplished, more competitive printing facilities have been engaged, and operational cost savings effected, with the expectation that 1975, although a recession year, will see the Company continue its forward progress.

In 1974, Curtis sold its royalty interest in certain properties in Ontario, Canada, near the Kidd Creek Mine, to Texasgulf Corporation for \$1,000,000. Previous to this sale, Curtis contacted and negotiated with six major corporations for a more favorable price. The Company engaged the services of one of Canada's outstanding firms of geologists, Derry, Michener and Booth, to determine the worth of the Company's interests in the royalty rights.

The geologists confirmed prior to the sale, that neither the Canadian government nor Texasgulf had any evidence of minerals of commercial value on property governed by the royalty rights. Accordingly, the Curtis board of directors approved the Texasgulf offer as the best price available to the Company which had held the rights for almost ten years without any clear prospect of gain for years to come, if ever.

The million dollars received from sale of its royalty rights permitted the Company to pay off most of

its remaining long term debts aside from debentures, and add to its working capital.

During 1974, the Company re-established its book division, sold off in the 1960's. To date, the Company has issued two volumes edited by Mrs. Julie Eisenhower which are selling well. Four more volumes are in process as well as a bicentennial volume drawing heavily from the Company's library spanning two centuries.

The Youth Division has released over a dozen books of children's features popularized in *Jack and Jill*, *Child Life*, *Children's Playmate* and *Young World*. The Company won the Freedom Foundation's 1974 award for excellence in children's publications.

Holiday Magazine continues to show improvement. Circulation has stabilized and revenue from advertising has increased.

The Saturday Evening Post, the Curtis "flag ship," begins its 247th year, battered by last years' inflation but even stronger in the hearts of subscribers. Over half the company's revenues are derived from sales of *Post* subscriptions and advertising.

Our special publications, including a new trade publication, *Demolition Age*, and *International Reports*, acquired last year, added to the Company's 1974 revenue increase.

In retrospect, 1974 was a year of growth and innovation, but also a time of trial as the Company, freshly recovered from a decade of decline and drift, sailed successfully through the heavy seas of paper shortages, unbelievable inflation and recession.

Spirits at Curtis are high as we begin 1975. Your Company's management and personnel are grateful to the stockholders for this opportunity to serve and we dedicate ourselves to efforts over and above the call of duty to maintain both your investment and your interest in this unique literary enterprise.

Sincerely,

Beurt SerVaas

EXHIBIT A

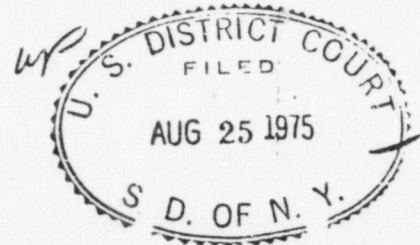
MEMORANDUM AND ORDER INCLUDING SUPPLEMENTARY *Notes*
FINDINGS AND CONCLUSIONS DENYING DEFENDANT'S MOTION
UNITED STATES DISTRICT COURT (Filed August 25, 1975)
SOUTHERN DISTRICT OF NEW YORK

312a

-----X
:
OSCAR GRUSS and OSCAR GRUSS & SON,
:
Plaintiffs,
:
-against-
:
THE CURTIS PUBLISHING COMPANY,
:
Defendant. :
-----X

73 Civ. 282-CLB

MEMORANDUM AND ORDER
[SUPPLEMENTAL FINDINGS]



Brieant, J.

Reargument is granted. Upon reargument the prior decision of the Court dated March 21, 1975 is adhered to. The following Supplemental Findings of Fact and Conclusions of Law are stated pursuant to Rule 52(b), F.R.Civ.P.

1. No scienter, or wilful intent to damage or defraud was proved against defendant. No such proof is necessary. A finding of negligence is sufficient to impose liability under §14(a). Gerstle v. Gamble-Skogmo, Inc., 478 F.2d 1281, 1298-301 (2d Cir. 1973).

The Court, in describing the proxy statement as a "trap for the unwary", did not intend thereby to make a finding of scienter. That phrase is well known to the common law in the context of negligence. See Coleman v. Robert Graves Co., 39 Misc. 85, 78 N.Y.S. 893, 895 (Sup. Ct., Kings County 1902).

MICROFILM

AUG 26 1975

2. Defendant breached several duties imposed by rules, cited in the prior opinion, having the force of statute. Such breach of statutory duty is negligence per se. If it is not negligence per se, it is, under the circumstances of this case, strong evidence of negligence, and the Court finds negligence on the part of defendant which was the proximate cause of plaintiff's foreseeable damages.

3. If the negligence was that of defendant's attorneys in preparing the proxy materials, such negligence is imputed to defendant under familiar principles of the law of agency.

4. The statutory duties referred to in the aforementioned decision are non-delegable, and defendant is responsible for any omission by its agents or attorneys.

5. Plaintiffs and their agent Anreder exercised reasonable care and were not guilty of contributory negligence.

6. No basis exists at this time to receive the testimony of SerVaas, proffered by affidavit and bearing on the credibility of the witness Anreder. No justification appears for the failure to call

SerVaas as a witness at the original trial of the action. It is not newly discovered evidence.

7. The personal motivation or animus, if any, of Gruss, Anreder or both of them is not relevant to the issues in this case. Gruss wanted to exercise his appraisal rights and would have done so but for defendant's violations of Rules 14a-9 and 101 Item 2.

8. In its enforcement of the rights of security holders in a publicly-held Pennsylvania corporation, which rights exist pursuant to federal securities laws, this Court is not limited directly or indirectly by procedural efforts of Pennsylvania state courts to "render the unwieldy, wieldable", In re Watt & Shand, 304 A.2d 694, 698 (Pa. Sup. Ct. 1973). If defendant desired to try the valuation according to such procedural rules, it should have waived the irregular exercise of the dissenting proxy, removed the foot of Gruss from its "trap for the unwary", and remitted him to an appraisal proceeding in state court.

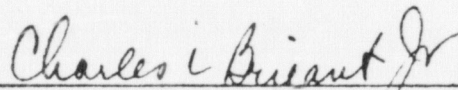
9. This Court, in computing the damages suffered by plaintiff, applied the per share valuation figure suggested by plaintiff's expert. The Court found the opinion of plaintiff's expert to be supported by the

evidence, and the considerations and implications flowing therefrom. Then, this Court tested the merits of plaintiff's expert's opinion by computing the present worth at 6% interest of the right to receive \$134.75 per share postponed for thirteen years, and then reducing that mathematical result by a consideration of the likelihood of such payment. The Court, upon reconsideration, finds no inconsistency between its finding that plaintiff's expert's opinion was correct and accurate, and its finding that "[c]onservatively, Curtis had [at least] a 25% likelihood of survival and full payment." (Findings and Conclusions, March 21, 1975, p.27).

Defendant's motion to amend the Court's findings of fact and conclusions of law other than as aforesaid, and to amend the judgment, are, in all respects, denied.

So Ordered.

Dated: New York, New York
August 25, 1975



CHARLES L. BRIANT, JR.

U. S. D. J.

STIPULATION RESPECTING EXHIBITS TO BE MADE PART OF RECORD
ON APPEAL (Filed September 29, 1975)

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----x 73 Civ. 282

OSCAR GRUSS and OSCAR GRUSS & SON,
Plaintiffs,

-against-

THE CURTIS PUBLISHING COMPANY,
Defendant.

-----x

IT IS HEREBY STIPULATED, CONSENTED TO AND AGREED, by
and between the attorneys for the respective parties hereto
that plaintiffs' Exhibits 1, 2 and 4 through 14 inclusive, and
defendant's Exhibits A through D inclusive, as marked in evidence
or for identification in the trial of this action in the
Southern District of New York, shall be made part of the record
on appeal herein.

Dated: New York, New York
September 29, 1975.

KASS, GOODKIND, WECHSLER &
GERSTEIN

By Michael P. Fuchs
A Member of the Firm
Attorneys for Plaintiffs

LEE, CASH & MARKS

By Therese L. Marks
A Member of the Firm
Attorneys for Defendant

PLAINTIFF'S EXHIBIT 2 - DEFENDANT'S PROXY STATEMENT

The Curtis Publishing Company

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

September 14, 1972

To the Holders of Prior Preferred Stock and Common Stock of The Curtis Publishing Company:

The Annual Meeting of Shareholders of The Curtis Publishing Company (the "Company") will be held at The Benjamin Franklin Hotel, Ninth and Chestnut Streets, Philadelphia, Pennsylvania at 2:00 P.M., Philadelphia Time, on Thursday, September 14, 1972 for the following purposes:

(1) To elect, by the vote of the holders of the Prior Preferred Stock and Common Stock voting together, seven directors to serve until the next annual meeting of the shareholders and until their successors shall have been elected and qualified;

(2) To elect, by the vote of the holders of the Prior Preferred Stock voting as a class, two directors to serve until the next annual meeting of the shareholders and until their successors shall have been elected and qualified or until the plan of recapitalization and acquisition referred to below becomes effective, whichever occurs first;

(3) To vote upon the adoption of a plan of recapitalization and acquisition through the adoption of the following group of related proposals which are to be voted upon together:

(a) To amend and restate the Articles of Incorporation, fixing the authorized number of shares of Common Stock, no par value, at 8,000,000, to read substantially as set forth in Exhibit A to the Proxy Statement and to reclassify, change and convert (i) each outstanding share of \$4.00 Dividend Series Prior Preferred Stock into 1.54 shares of Common Stock, no par value, (ii) each outstanding share of \$1.60 Dividend Series Prior Preferred Stock into 0.93 shares of Common Stock, no par value, and (iii) each outstanding share of Common Stock, \$1.00 par value, into 0.10 shares of Common Stock, no par value,

(b) To apply all of the unrestricted capital surplus outstanding immediately following the amendment and restatement of the Articles of Incorporation, referred to above, to the reduction of the accumulated deficit and

(c) To approve the terms of the Agreement and Plan of Reorganization, dated as of July 1, 1972, by and between The Curtis Publishing Company and Review Publishing Co., Inc., which agreement provides for the acquisition by Curtis of all of the assets and liabilities of Review (see Exhibit B to the attached Proxy Statement); and

(4) To authorize the Board of Directors to sell or otherwise dispose of any or all of the assets of the Company or of its subsidiary, The Saturday Evening Post Company, for such consideration and upon such terms and conditions as the Board of Directors in its sole discretion may deem desirable, if the plan of recapitalization and acquisition is not adopted.

(5) To transact such other business as may properly come before the meeting or any adjournments thereof.

The Board of Directors has fixed July 27, 1972 as the record date for the determination of holders of Prior Preferred Stock and Common Stock entitled to notice of and to vote at the meeting.

If you do not expect to attend the meeting, please sign, date and return, in the envelope provided, the enclosed form of Proxy which is being solicited on behalf of the management by the direction of the Board of Directors. The Proxy shows the form in which your stock is registered. Your signature should be in the same form.

THE PLAN OF RECAPITALIZATION AND ACQUISITION REQUIRES THE AFFIRMATIVE VOTE OF THE HOLDERS OF A MAJORITY OF THE OUTSTANDING SHARES OF COMMON STOCK AND THE AFFIRMATIVE VOTE OF THE HOLDERS OF TWO-THIRDS OF THE OUTSTANDING SHARES OF EACH SERIES OF PRIOR PREFERRED STOCK. PLEASE GIVE THIS MATTER YOUR IMMEDIATE ATTENTION AND SIGN AND MAIL IN YOUR PROXY.

Philadelphia, Pennsylvania
July 7, 1972

By Order of the Board of Directors
MARGARET B. WILKINSON,
Secretary

The Curtis Publishing Company

SUMMARY OF PRINCIPAL FEATURES OF PROXY STATEMENT

Index to Summary		
(See page 7 for Table of Contents of Proxy Statement)		
	Page	Page
General Information about the Meeting	1	Factors to be Considered 3
Businesses of Curtis and Review	2	Statements of Operations of Curtis and Review 3
Management of Curtis after the Acquisition	2	Book Values Per Share 4
Securities to be Issued	2	Earnings (Losses) Per Share 4
Reasons for Proposed Plan of Recapitalization and Acquisition	3	Market Prices of Curtis Securities 5
		Ownership of Review by Mr. SerVaas 6

The attached Proxy Statement is furnished in connection with the solicitation of proxies by the management of The Curtis Publishing Company (referred to as the "Company" or "Curtis" herein) for use at the Annual Meeting of Shareholders to be held on Thursday, September 14, 1972 and at any adjournment thereof. Cross references in this summary are to headings in the Proxy Statement. This summary is qualified in its entirety by such references.

General Information About The Meeting

Date and Time: Thursday, September 14, 1972, 2:00 P.M., Philadelphia Time.

Place: The Benjamin Franklin Hotel, Ninth and Chestnut Streets, Philadelphia, Pennsylvania

Proposals to be Voted Upon: The election of directors and the adoption of a plan of recapitalization and acquisition. The plan of recapitalization and acquisition is composed of three major elements and such plan will be voted upon as a single proposal:

(a) the amendment and restatement of the Articles of Incorporation, fixing the authorized number of shares of Common Stock, no par value, at 8,000,000, to read substantially as set forth in Exhibit A to the Proxy Statement and the reclassification, change and conversion of (i) each outstanding share of \$4.00 Dividend Series Prior Preferred Stock into 1.54 shares of Common Stock, no par value, (ii) each outstanding share of \$1.60 Dividend Series Prior Preferred Stock into 0.93 shares of Common Stock, no par value, (iii) each outstanding share of Common Stock, \$1.00 par value, into 0.10 shares of Common Stock, no par value,

(b) the application of all of the unrestricted capital surplus outstanding immediately following the amendment and restatement of the Articles of Incorporation to the reduction of the Accumulated Deficit and

(c) the approval of the terms of the Agreement and Plan of Reorganization, dated as of July 1, 1972, by and between The Curtis Publishing Company and Review Publishing Co., Inc., which agreement provides for the acquisition by Curtis of all of the assets and liabilities of Review (see Exhibit B to the attached Proxy Statement).

The shareholders also will vote upon a proposal to authorize the Board of Directors to sell or otherwise dispose of any or all of the assets of the Company or of its subsidiary, The Saturday Evening Post Company, if the plan of recapitalization and acquisition is not adopted, for such consideration and upon such terms and conditions as the Board of Directors in its sole discretion may deem desirable.

Securities Entitled to Vote: The \$4.00 Dividend Series Prior Preferred Stock, the \$1.60 Dividend Series Prior Preferred Stock and the Common Stock, \$1.00 par value. See "Voting Securities - Record Date".

Record Date: July 27, 1972.

Appraisal Rights: The holders of Prior Preferred Stock may exercise appraisal rights, but must exercise such rights within certain periods of time as set forth under "Appraisal Rights". If the plan of recapitalization and acquisition is approved by the required shareholder vote, the holders of the Prior Preferred Stock will be bound thereby unless they exercise their appraisal rights.

Businesses of Curtis and Review

Curtis, through its subsidiary, The Saturday Evening Post Company, is principally engaged in the publication of HOLIDAY magazine, JACK AND JILL magazine and the new THE SATURDAY EVENING POST magazine (a quarterly). See "Business, Property and Litigation of Curtis".

Review is principally engaged in the publication of children's magazines and trade and special interest periodicals. See "Review Publishing Co., Inc.—Business and Management".

Management of Curtis after the Acquisition

The directors of Curtis will not be changed by reason of the acquisition. See "Directors and Officers". However, it should be recognized that substantial management and related services are currently being supplied by Review pursuant to a management agreement, dated July 1, 1970. See "Services Provided by Review".

Securities to be Issued

Upon the plan of recapitalization and acquisition becoming effective, a maximum of 2,398,518 shares of Common Stock, no par value, (hereinafter sometimes referred to as the "New Common Stock") of Curtis will be issued, as follows:

<u>Class of Security Exchanged, Reclassified or Converted</u>	<u>Exchange Ratio*</u>	<u>Aggregate Shares of Common Stock, no par value, Issued to Class</u>
Curtis Debentures	9.84 shs. for each \$100 principal amount	635,172 shs.**
Curtis \$4.00 Dividend Series		
Prior Preferred Stock	1.54 shs. for each share	515,084 shs.
Curtis \$1.60 Dividend Series		
Prior Preferred Stock	0.93 shs. for each share	222,659 shs.
Curtis Common Stock, \$1.00 par value	0.10 shs. for each share	355,557 shs.
Shares to be issued for the assets and liabilities of Review***	—	670,046 shs.
Total		2,398,518 shs.**

*The exchange ratios were determined by the Board of Directors of the Company after giving consideration to all relevant factors, including accrued interest on the Debentures, dividend arrearages on the Preferred Stock and liquidation preferences as well as comparative market values of the respective classes of securities. The ratios were determined with a view to giving the Debentures and the Preferred Stock five times their average market value in terms of the average market value of the present Common Stock and giving the present Common Stock its average market value. The resulting ratios were then divided by ten in order to avoid having outstanding an excessive number of shares of New Common Stock following the recapitalization and acquisition.

**Assuming 100% of the Debentures outstanding are tendered pursuant to the Exchange Offer. See "Exchange Offer".

***SerVaas, Inc. is the sole shareholder of Review. Beurt R. SerVaas is the sole shareholder of SerVaas, Inc. Mr. SerVaas is the Chairman of the Board, President and Treasurer and the principal shareholder of Curtis.

Assuming 100% acceptance of the exchange offer, the percentage of market value held by the Debenture holders and the Preferred stockholders will increase and the percentage of market value held by the Common stockholders will decrease from approximately 56% to approximately 15%. See table on page 10.

Reasons for Proposed Plan of Recapitalization and Acquisition

The reasons for the proposed plan of recapitalization and acquisition are to simplify the capital structure of the Company, to increase the resources available to the Company and to retain the management necessary for the Company to continue publishing magazines. See "Plan of Recapitalization and Acquisition".

Factors to be Considered

A number of factors relating to the Company stated below and elsewhere in this Proxy Statement in more detail should be considered.

1. *Losses and Changes in Operations.* The Company has had a loss from operations in each of the last ten years; except 1966 when it earned \$347,000. For information as to the last five years, see "Consolidated Statement of Operations" and "Statement of Changes in Shareholder's Equity" of the Company and Subsidiaries. Since 1967, the Company has discontinued a number of unprofitable operations, including in 1969 publication of the old THE SATURDAY EVENING POST magazine and has disposed of a significant number of its properties. See "Recent Developments." The Company's present principal operations consist of publishing three magazines, HOLIDAY, JACK AND JILL and the new quarterly THE SATURDAY EVENING POST. Concerning recent changes in the publishing industry, see "Business, Property and Litigation of Curtis."

2. *Working Capital.* The Company's current ratio is approximately 1:1, see "Consolidated Balance Sheet" of the Company and Subsidiaries. A more favorable ratio is needed before the Company can liquidate its overdue accounts payable and accrued expenses. Only approximately 20% of its current assets is cash, all of which is needed for the Company's current operations, see "Projected Changes in Cash (Unaudited)". There are no sources of additional capital presently available to the Company.

3. *No Dividends.* The Company has been unable to pay any dividends on its Common Stock, \$1 par value, since 1960 and even if the plan of recapitalization and acquisition is adopted there can be no assurance that dividends will ever be paid on the New Common Stock. See "Description of Capital Stock—New Common Stock, no par value."

4. *Large Legal Fees.* The amounts paid by the Company in legal fees for the year ended December 31, 1971, were approximately \$557,000 and the amounts paid by the Company in legal fees to date in the current fiscal year were approximately \$236,000.

5. *Losses and Working Capital of Review.* The results of operations of Review for its last three fiscal years, and for the eight months ended March 31, 1972, have been losses. Its ratios of current assets to current liabilities at July 31, 1971, and at March 31, 1972, declined from 1.37 to 1 to 0.89 to 1. See "Statements of Consolidated Operations."

6. *Benefits to be Received by Mr. SerVaas.* Under the plan, the percentage of the voting securities of the Company owned by Mr. SerVaas will increase from approximately 18% to approximately 32%. The number of shares of New Common Stock of the Company (670,046) to be paid by the Company for the assets of Review was determined by Mr. SerVaas. The 711,156 shares of Common Stock presently owned by Mr. SerVaas were purchased by him in 1970 for 10c per share when the market price was 50c per share. Following consummation of the plan, Mr. SerVaas will receive his purchase price (\$82,400) plus accrued interest for the \$1,030,000 principal amount of Debentures which he holds. See "Plan of Recapitalization and Acquisition—The Acquisition" and "Election of Directors—Certain Transactions".

Statements of Operations of Curtis and Review

For information concerning the Statements of Operations of Curtis and Review, see "Consolidated Statement of Operations" with respect to Curtis and "Statement of Consolidated Operations" with respect to Review.

321a

As the future of the Company as an operating entity is dependent upon the success of its future operations, and due to significant litigation and claims pending and other contingencies (referred to in Note 3 to Parent Company and Consolidated Financial Statements) which could have a material adverse effect upon the business or financial condition of the Company, the Report of Independent Public Accountants expresses no opinion with respect to such financial statements.

Book Values Per Share

The following tables set forth as of March 31, 1972, the negative book values per common share of Curtis and Review and the pro forma negative book values after giving effect to the Plan of Recapitalization. See "Pro Forma Condensed Combined Balance Sheet".

Negative Book Value Per Common Share

March 31, 1972

	<u>Curtis</u>	<u>Review</u>
Historical		
Based on outstanding shares	<u>\$(14.72)</u>	<u>\$ (3,978)</u>
Pro Forma Combined:		
Based on outstanding shares—		
Assuming exchange of 100% of Debentures	<u>\$ (1.63)</u>	<u>\$(10,921)</u>
Assuming exchange of 90% of Debentures	<u>\$ (2.04)</u>	<u>\$(13,668)</u>
Assuming exchange of 75% of Debentures	<u>\$ (2.71)</u>	<u>\$(18,157)</u>

Earnings (Losses) Per Share

The following tabulations reflect the historical earnings (losses) per common share of Curtis and Review. These tabulations are based on the historical financial statements appearing under "Consolidated Statements of Operations." Such historical statements and their introductions and notes should be read in conjunction with these tabulations.

The pro forma losses per share (before extraordinary items) for the twelve months ended March 31, 1972 are after giving effect to the Plan of Recapitalization. See "Pro Forma Combined Summary Income Statement".

THE CURTIS PUBLISHING COMPANY

	Three Months Ended March 31,		Years Ended December 31,				
	1972	1971	1971	1970	1969	1968	1967
	(unaudited)					(not covered by Auditors' Report)	
Per Share of Common Stock (after provision for cumulative unpaid dividends of \$1,147,000 annually):							
(Loss) before extraordinary items	\$ (.12)	\$ (.17)	\$ (.57)	\$ (1.15)	\$ (3.45)	\$ (5.46)	\$ (1.69)
Extraordinary items, net ..	—	—	.88	.82	(2.33)	(.74)	—
Net income (loss)	<u>\$ (.12)</u>	<u>\$ (.17)</u>	<u>\$.31</u>	<u>\$ (.33)</u>	<u>\$ (2.78)</u>	<u>\$ (6.20)</u>	<u>\$ (1.69)</u>
Dividends on Common Stock	None	None	None	None	None	None	None

REVIEW PUBLISHING CO., INC.

	Eight Months Ended March 31,		Years Ended July 31,				Nine Months Ended July 31,
	1972	1971	1971	1970	1969	1968	1967
	(unaudited)						
Per share of Common Stock:							
Income (loss) before extraor- dinary items	\$ (613)	\$ 250	\$ (77)	\$ (512)	\$ (691)	\$ (872)	\$ 322
Extraordinary items (charge) .	-0-	106	-0-	-0-	-0-	-0-	(502)
Net income (loss)	\$ (613)	\$ 356	\$ (77)	\$ (512)	\$ (691)	\$ (872)	\$ (180)

Losses Per Share (Before Extraordinary Items)
Twelve Months Ended March 31, 1972

	Curtis	Review
Historical:		
Based on outstanding shares	<u>\$ (.78)</u>	<u>\$ (1,050)</u>
Pro Forma:		
Based on outstanding shares—		
Assuming exchange of 100% of Debentures	<u>\$ (.16)</u>	<u>\$ (1,072)</u>
Assuming exchange of 90% of Debentures	<u>\$ (.19)</u>	<u>\$ (1,273)</u>
Assuming exchange of 75% of Debentures	<u>\$ (.22)</u>	<u>\$ (1,474)</u>

Market Prices of Curtis Securities

The comparative market prices for the Debentures, the \$4.00 Dividend Series Prior Preferred Stock, the \$1.60 Dividend Series Prior Preferred Stock and the Common Stock, \$1.00 par value, of Curtis on the Philadelphia-Baltimore-Washington Stock Exchange, as reported by said stock exchange, were as follows for the periods indicated:

Year	Debentures		\$4.00 Dividend Series Prior Preferred Stock		\$1.60 Dividend Series Prior Preferred Stock		Common Stock	
	High	Low	High	Low	High	Low	High	Low
1968	60	40	43¼	23¾	15	8½	13¾	5½
1969	50	18	32	5¾	10	¾	7¾	¾
1970	22½	7½	5¾	1¾	3	¾	2¾	½
1971 1st Qtr.	22¾	16¾	9	5	3½	1¾	2¾	1¼
2nd Qtr.	23½	20	6¾	4¾	3¾	2¾	2¾	1¾
3rd Qtr.	24½	21	5½	4	2¾	2¾	2	1½
4th Qtr.	26	12	4¾	2½	2¾	1	1¼	½
1972 1st Qtr.	30	15	4½	2½	2½	1	2	¾
2nd Qtr.	32	19	4¾	2¾	3¾	1½	1½	¾

During the week ended July 7, 1972, the market prices on the Philadelphia-Baltimore-Washington Stock Exchange of the Debentures, Prior Preferred Stock and Common Stock (\$1.00 par value) of the Company were as follows: 323a

Debentures	\$20.00
\$4.00 Dividend Prior Preferred	\$3.50
\$1.60 Dividend Prior Preferred	\$1.625 bid, \$2.125 asked
Common Stock (\$1 par value)	\$0.5625

The Common Stock, \$1.00 par value, of Curtis is also traded on the Midwest and Pacific Coast Stock Exchanges.

There are no Shares of Common Stock, no par value, authorized, issued or outstanding at the date hereof.

Ownership of Review by Mr. SerVaas

All of the capital stock of Review Publishing Co., Inc. is owned by SerVaas, Inc. Beurt R. SerVaas, Chairman of the Board, President and Treasurer of Curtis, owns all of the outstanding capital stock of SerVaas, Inc. The number of shares of New Common Stock of the Company to be issued for the assets and liabilities of Review was determined by Mr. SerVaas and accepted by the Board of Directors of the Company. See "The Acquisition."

Mr. SerVaas holds 28,348 shares of \$1.60 Dividend Prior Preferred Stock and 711,156 shares of Common Stock, \$1.00 par value, which together represent approximately 18% of the outstanding voting securities of the Company. Upon consummation of the proposed recapitalization of the Company and the acquisition by the Company of the assets and liabilities of Review Publishing Co., Inc., wholly owned by Mr. SerVaas indirectly, Mr. SerVaas will own directly or indirectly an aggregate of 767,526 shares of New Common Stock which will represent not less than 32% (nor more than approximately 34%) of the outstanding voting securities of the Company. See "Plan of Recapitalization and Acquisition".

TABLE OF CONTENTS

324a

	Page		Page
Summary of Principal Features of Proxy Statement	1	Services Provided by Review	36
Proxy Statement	8	Postage	37
General	8	Other Income	37
Proxies	8	Competition	37
Voting Securities—Record Date	8	Property	37
Solicitation	9	Litigation	37
Plan of Recapitalization and Acquisition	9	Review Publishing Co., Inc.—Business and	
The Exchange Offer	10	Management	40
The Acquisition	11	Business and History	40
Tax Consequences	12	Employees	44
Fractional Shares	12	Property	44
Authorization for Sale of Assets	12	Competition	44
Election of Directors	13	Management	44
Nominees for Director	13	Principal Shareholders	46
Directors and Officers	15	Description of Capital Stock	46
Remuneration	15	New Common Stock, no par value	46
Stock Options	16	Prior Preferred Stock	47
Certain Transactions	16	Common Stock, \$1.00 par value (Present)	48
Recent Developments	18	Appraisal Rights	49
Disposition of Assets	18	Index to Financial Statements	51
Termination of Certain Adverse Claims ..	19	The Curtis Publishing Company Financial State-	
Capitalization	20	ments	52-73
Consolidated Statements of Operations		Review Publishing Co. Inc. Financial State-	
The Curtis Publishing Company	21	ments	74-81
Review Publishing Co., Inc.	25	Exhibit A—Amended and Restated Articles of	
Pro Forma Combined Income Statement	27	Incorporation of The Curtis Publishing Com-	
Pro Forma Condensed Combined Balance Sheet	29	pany	82
Projected Changes in Cash	31	Exhibit B—Agreement and Plan of Reorganiza-	
Business, Property and Litigation of Curtis ..	34	tion between Review Publishing Co., Inc. and	
History	34	The Curtis Publishing Company	83
Business	34	Exhibit C—Pennsylvania Appraisal Statute ...	92
Employees	36		

The Curtis Publishing Company

325a

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

September 14, 1972

GENERAL

This Proxy Statement is furnished in connection with the solicitation of Proxies by the management of The Curtis Publishing Company for use at the Annual Meeting of Shareholders to be held at 2:00 P.M., Philadelphia time, on Thursday, September 14, 1972, at The Benjamin Franklin Hotel, Ninth and Chestnut Streets, Philadelphia, Pennsylvania and at any adjournment thereof.

Proxies

A Proxy in the accompanying form which is properly executed and returned will be voted in accordance with the instructions contained thereon. In the absence of such instructions, the shares represented by a Proxy will be voted for the election of directors and in favor of each of the proposals. Except as specified in this Proxy Statement, management does not intend to bring any matter before the meeting and does not know of any matter which anyone else proposes to present for action at the meeting. If, however, any other matters properly come before the meeting, the persons named in the accompanying form of Proxy, or their duly constituted substitutes, will be deemed authorized to vote or otherwise act on such matters in accordance with their judgment.

A Proxy may be revoked by the person giving it by delivering written notice of revocation to the Secretary of the Company at any time prior to the exercise of the powers conferred thereby.

Voting Securities — Record Date

The outstanding number of shares of each class of voting securities of the Company as of July 27, 1972 (the record date for voting at the Annual Meeting), and the number of votes to which each class is entitled are as follows:

Prior Preferred Stock:	
\$4.00 Dividend Series	334,470
\$1.60 Dividend Series	239,418
Common Stock	3,555,568
Total	4,129,456

Beurt R. SerVaas, Chairman of the Board, President and Treasurer of the Company, holds 28,348 shares of \$1.60 Dividend Series Prior Preferred Stock and 711,156 shares of Common Stock which together represent approximately 18% of the outstanding voting securities of the Company. The shares of \$1.60 Dividend Series Prior Preferred Stock represent approximately 11.8% of the outstanding shares of that series. For additional information, see "Principal Shareholders."

Only holders of Prior Preferred Stock and Common Stock of record at the close of business on July 27, 1972 will be entitled to vote at the meeting. Each holder of Prior Preferred Stock and Common Stock entitled to vote at the meeting shall have the right to one vote for each share standing in his name on the books of the Company, except that voting may be cumulative in the election of directors.

The costs of the solicitation of Proxies will be borne by the Company. In addition to the solicitation of Proxies by mail, Proxies may be solicited by the Company's directors, officers and regular employees through personal interview, telephone or telegram. The Company may pay persons holding stock of record only or their nominees for their expenses in sending soliciting material to their principals. The Company has retained D. F. King & Co., Inc., New York, N.Y., to assist in the solicitation of Proxies and will pay such firm a fee, including out of pocket expenses, estimated at \$17,000. The aggregate expenses of the plan of recapitalization and acquisition are estimated at \$250,000.

PLAN OF RECAPITALIZATION AND ACQUISITION

The proposed plan of recapitalization and acquisition provides that the holders of outstanding securities of the Company will receive shares of Common Stock, no par value, as follows:

9.84 shares for each \$100 principal amount of 6% Subordinated Income Debentures Due 1986

1.54 shares for each share of \$4.00 Dividend Series Prior Preferred Stock.

0.93 shares for each share of \$1.60 Dividend Series Prior Preferred Stock.

0.10 shares for each share of Common Stock, \$1.00 par value.

The above exchange ratios were determined by the Board of Directors of the Company after giving consideration to all relevant factors, including accrued interest on the Debentures, dividend arrearages on the Preferred Stock and liquidation preferences as well as comparative market values of the respective classes of securities. The ratios were determined with a view to giving the Debentures and the Preferred Stock five times their average market value in terms of the average market value of the present Common Stock and giving the present Common Stock its average market value. The resulting ratios were then divided by ten in order to avoid having outstanding an excessive number of shares of New Common Stock following the recapitalization and acquisition.

The plan, if approved, and the Exchange Offer, if successful, will provide the Company with a single class of equity securities, eliminate the huge interest and dividend burden presently in effect (\$1,596,161 annually), substantially reduce the accumulated deficit by applying the resulting unrestricted capital surplus thereto and substantially reduce the amount of long term debt outstanding. See "Capitalization". A purpose of the plan is to enable the Company to attempt to obtain credit for the conduct of its business. Credit has not been available to the Company for some time, except for limited advances which have been personally guaranteed by Mr. SerVaas. Another purpose of the plan is to make the Company more attractive for purposes of a merger or similar business combination in order that it may be in a position to utilize all or some portion of its tax loss carryforwards. There is no assurance that either objective will be achieved in whole or in part. The tax loss carryforwards could be subject to significant reduction. See Note 3(c)3 to Parent Company and Consolidated Financial Statements.

All of the Company's cash is required for working capital and its operations will not support the present huge interest and dividend burdens. Unless the Company can be recapitalized promptly on an all common stock basis, management knows of no alternative to a liquidation of the Company in which the holders of the Debentures (which are subordinated to general creditors on liquidation) would receive very little, if anything, and the holders of the Prior Preferred Stock and Common Stock, \$1.00 par value, would receive nothing.

The alternatives to the proposed plan of recapitalization and acquisition which the Board of Directors of the Company has considered include voluntary liquidation or continued operations until either the Company's financial resources are exhausted or its operations become stable. The plan of recapitalization and acquisition represents in the opinion of the management the best of these alternatives from the point of view of the Company's security holders.

If the plan of recapitalization and acquisition is approved at the Annual Meeting of Shareholders, holders of the outstanding Prior Preferred Stock, \$4.00 Dividend Series and \$1.60 Dividend Series, will become holders of Common Stock, no par value. Accordingly, the respective preferences, qualifications, privileges

and limitations summarized under the caption "Prior Preferred Stock" will cease and said holders will have the rights of holders of Common Stock, no par value. See "Common Stock, no par value (Present)".

Approval of the plan of recapitalization and acquisition will require: (i) the affirmative vote of the holders of two-thirds of the outstanding shares of \$4.00 Dividend Series Prior Preferred Stock voting as a class, (ii) the affirmative vote of the holders of two-thirds of the outstanding shares of \$1.60 Dividend Series Prior Preferred Stock voting as a class and (iii) the affirmative vote of the holders of a majority of the outstanding shares of both classes of Prior Preferred Stock and the Common Stock, \$1.00 par value, voting together. If such approval is obtained, the filing of the Articles of Amendment to the Articles of Incorporation with the Commonwealth of Pennsylvania will automatically effect the reclassification, change and conversion of both series of Prior Preferred Stock and the Common Stock, \$1.00 par value, into Common Stock, no par value, subject only to the appraisal rights of the holders of the Prior Preferred Stock pursuant to Section 515 of the Pennsylvania Business Corporation Law. See "Appraisal Rights" and Exhibit C.

The Board of Directors has reserved the right not to file the Articles of Amendment to the Articles of Incorporation if less than \$5,809,500 principal amount (90%) of Debentures outstanding, or such lesser amount (not less than 75%) as it may approve, accept the Exchange Offer. (See "Exchange Offer").

Upon completion of the recapitalization and the acquisition of Review Publishing Co., Inc., management intends to pursue its efforts toward reducing operating losses, and to endeavor to utilize the Company's tax loss carryforwards by seeking combinations, through merger or otherwise, with profitable businesses. It presently has no plans to borrow funds or to raise capital through any public offering of its securities and has no plans, understandings or agreements, written or oral, for a business combination through merger or otherwise.

Application will be made to list the Common Stock, no par value, on the Philadelphia-Baltimore-Washington Stock Exchange. There is no assurance that the Common Stock, no par value, will be accepted for listing on such Exchange.

The following table shows a comparison of the aggregate market values (based on an average of the last sale prices on Philadelphia-Baltimore-Washington Stock Exchange in the months of September 1971 through February 1972 for each security) of the respective classes of securities of Curtis and also the extent of participation which each such class will have in the Common Stock, no par value, assuming 100% and 75% acceptance of the Exchange Offer referred to below.

Security	Average Market Price(1)	Shares or Principal Amount Outstanding	Present Market Value	Participation in New Common Stock			
				Assuming 100% Acceptance of Exchange Offer		Assuming 75% Acceptance of Exchange Offer	
				Shares	%	Shares	%
Debentures	\$20.50 per						
\$4.00 Dividend Series Prior Preferred Stock	\$100.00	\$6,455,000	\$1,323,275 20.16%	635,172	26.48	476,379	21.27
\$1.60 Dividend Series Prior Preferred Stock	\$3.21 per share	334,470 shs.	\$1,075,591 16.35%	515,084	21.48	515,084	23.00
Common Stock, \$1.00 par value	\$1.94 per share	239,418 shs.	\$ 463,872 7.07%	222,659	9.28	222,659	9.94
	\$1.04 per share	3,555,568 shs.	\$3,703,716 56.42%	355,557	14.82	355,557	15.87
			<u>\$6,563,954 100.00%</u>				
Shares to be issued in the acquisition of Review				670,046	27.94	670,046	29.92
Total				<u>2,398,518</u>	<u>100.00</u>	<u>39,725</u>	<u>100.00</u>

(1) The average market price for each security is based on an average of the last sale prices on the Philadelphia-Baltimore-Washington Stock Exchange in the months of September 1971 through February 1972.

The New Common Stock participation amounts will depend upon the percentage acceptance of the Exchange Offer and the number of shares of Prior Preferred Stock in respect of which appraisal rights are perfected.

The Exchange Offer

As part of the plan of recapitalization and acquisition, the Company concurrently with the solicitation of Proxies for the Annual Meeting of Shareholders will conduct an Exchange Offer to the holders of the Deben-

tures. This Exchange Offer will not become effective if (i) approval of the plan of recapitalization and acquisition is not obtained, (ii) the acquisition of the assets of Review is not consummated or (iii) less than \$5,809,500 aggregate principal amount (90%) of Debentures outstanding or such lesser amount (not less than 75%) as may be approved by the Board of Directors, accept the Exchange Offer.

The Company will offer to exchange 9.84 shares of Common Stock, no par value, for each \$100 principal amount of Debenture tendered in conformity with the terms of the Exchange Offer. The Exchange Offer will expire at 3:30 P.M. Philadelphia time on Thursday, September 14, 1972. The Company may extend the Exchange Offer from time to time, but not beyond 3:30 P.M. on November 30, 1972.

The aggregate principal amount of Debentures outstanding at the date of this Proxy Statement is \$6,455,000 after giving effect to the exercise by the Company of options to purchase \$1,030,000 principal amount of Debentures owned by Beurt R. SerVaas. For information concerning the amount to be paid to Mr. SerVaas for said Debentures, see "Certain Transactions".

The Company will pay securities brokers and dealers commissions at the rate of \$.50 per \$100 principal amount for Debentures exchanged through their efforts or facilities as evidenced by the appearance of the name of the soliciting broker or dealer on the Letter of Transmittal and Acceptance.

The Acquisition

The Board of Directors has approved, subject to the favorable action of the shareholders, the acquisition of the assets and liabilities of Review Publishing Co., Inc. Review is primarily engaged in the publication of five children's magazines and six trade and special interest periodicals. Curtis is principally engaged in the publication of three magazines, HOLIDAY, JACK AND JILL and the new quarterly THE SATURDAY EVENING POST. Review pursuant to a management agreement, dated October 13, 1970 and amended February 11, 1971, provides substantially all of the management and related services in connection with the publication of the magazines published by Curtis.

It is the opinion of the management of Curtis that the proposed acquisition will have the effect of increasing the resources available to Curtis and retaining management necessary for Curtis to continue publishing magazines.

Beurt R. SerVaas, Chairman of the Board, President, Treasurer and a director of Curtis, holds 28,348 shares of \$1.60 Dividend Series Prior Preferred Stock and 711,156 shares of Common Stock, \$1.00 par value, which together represent approximately 18% of the outstanding voting securities of the Company. Mr. SerVaas owns all of the outstanding capital stock of SerVaas, Inc. which is the sole shareholder of Review Publishing Co., Inc. Review Publishing Co., Inc. was acquired by Mr. SerVaas on October 15, 1957 and subsequently transferred to SerVaas, Inc.

Under the plan of recapitalization, without the acquisition, Mr. SerVaas' interest in Curtis would be reduced from approximately 18% to approximately 4%. This reduced equity position was not acceptable to Mr. SerVaas and as a result the Company agreed to issue 670,046 shares of New Common Stock, no par value, of Curtis in exchange for the assets and liabilities of Review, with the result that Mr. SerVaas' interest will increase to a minimum of approximately 32%, and a maximum of approximately 34%, of the New Common Stock, depending upon the number of Debentures surrendered for exchange and the number of shares of Prior Preferred Stock in respect of which appraisal rights are asserted. In reaching such agreement, the Board of Directors of the Company considered many factors, including the desired continued management of the combined companies by Mr. SerVaas as chief executive officer, the market values, book values, and income (losses) of both companies, as well as the prospects of Curtis and Review for the future, and determined that the proposed acquisition on such terms would be equitable and would benefit the shareholders of Curtis. Although the consideration for the assets and liabilities of Review was determined by Mr. SerVaas and cannot be considered to have been as a result of arm's length bargaining inasmuch as he is a director and the chief executive officer of both the Company and Review, eight of the nine Curtis directors (Mr. SerVaas not voting) elected to accept Mr. SerVaas' proposal as understandable and essential to assure a strong management incentive and dedication over what could be a long period of time.

Under the Agreement and Plan of Reorganization, (also referred to herein as the "Acquisition Agreement") the assets and liabilities of Review will be acquired by Curtis in exchange for 670,046 shares of Common Stock, no par value, of Curtis, representing 27.94% of the shares to be outstanding following the adoption of the plan of recapitalization and acquisition.

Review does not own any real property, having in March 1972 conveyed to SerVaas, Inc. the land and buildings reflected on the Consolidated Balance Sheet of Review at July 31, 1971 at \$51,044 (net of depreciation of \$44,335) together with mortgage and other debt related thereto of \$32,342, which real property was unrelated to and was not used in connection with the publishing business of Review.

Review also has outstanding two 6% debentures, each in the principal amount of \$50,000 due December 1, 1972 and January 15, 1973, respectively, which are held by Mr. Burkhart, a director of Curtis, who has waived the right to convert the debentures into common stock of Review. Curtis does not intend to use its cash resources to pay the debentures when due, but plans either to extend the maturities thereof or to refinance them, see Note D to Consolidated Financial Statements of Review and Subsidiary. There is no assurance that the maturities of said debentures can be extended or that said debentures can be refinanced.

Tax Consequences

In the opinion of Messrs. Morgan, Lewis & Bockius, Philadelphia, Pennsylvania, counsel for the Company, the plan of recapitalization and acquisition will constitute a reorganization under Section 368(a)(1)(E) of the Internal Revenue Code of 1954, as amended (the "Code"), and Curtis will be a party to the reorganization under Section 368(b) of the Code. Accordingly, no gain, other income or loss will be recognized to the holders of the Debentures, Prior Preferred Stock or Common Stock, \$1.00 par value, upon the receipt by them of Common Stock, no par value, in exchange for their securities (including any right to deferred interest or accrued dividends thereon) under Section 354(a)(1) of the Code; and the bases and holding periods of Common Stock, no par value, in the hands of such holders will be the same as their bases and holding periods in the securities surrendered or converted (including any accrued interest or dividends) under Sections 358(a)(1) and 1223(1) of the Code.

In the opinion of said counsel, no gain, other income or loss will be recognized to the Company on the issuance of its Common Stock, no par value, to the holders of the securities surrendered or converted pursuant to the plan of recapitalization and acquisition, under Section 1032(a) of the Code, nor will the Company obtain any tax loss benefit from Review upon its acquisition thereof, see Note 2 to the Statement of Consolidated Operations of Review and Subsidiary.

Fractional Shares

No fractional shares of Common Stock, no par value, will be issued. Any fractional interests in Common Stock, no par value, to which holders of Prior Preferred Stock and/or Common Stock, \$1.00 par value, of the Company may be entitled will be sold by the Transfer Agent for the Common Stock, no par value, on the open market for the account of such holders after the plan of recapitalization and acquisition has become effective and the net proceeds, after deduction of brokerage commissions incident to such sale, will be remitted to such holders.

AUTHORIZATION FOR SALE OF ASSETS

If the plan of recapitalization and acquisition is not adopted by the shareholders, the new Board of Directors may decide to proceed with a voluntary liquidation on an orderly basis and, in this connection, to sell or otherwise dispose of any or all of the assets of the Company, including the three magazines, HOLIDAY, JACK AND JILL and THE SATURDAY EVENING POST, owned by the Company's wholly owned subsidiary, The Saturday Evening Post Company. Accordingly, the shareholders also are being asked to authorize the Board of Directors to sell or otherwise dispose of any or all of such assets at such time or times, in such manner, for such consideration and upon such other terms and conditions as the new Board of Directors in its sole discretion may deem desirable, if the plan of recapitalization and acquisition is not adopted. Under Pennsylvania law, the Company may not sell, lease or otherwise dispose of all or substantially all of its assets without the prior approval of the holders of at least a majority of the outstanding shares entitled to vote. Thus, if the shareholders do not approve the sale of assets proposal, the Company will not be free to dispose of any of its principal assets without first seeking and obtaining shareholder approval.

This proposal will require for adoption the affirmative vote of the holders of at least a majority of the outstanding shares of Prior Preferred Stock and Common Stock voting together as a single class. If the plan of recapitalization and acquisition is not adopted, and if the Board of Directors is not authorized to sell or otherwise dispose of any or all of the assets of the Company, and if the management is not able to stabilize the operations of the Company, the only remaining alternative will be to seek reorganization or liquidation under the federal bankruptcy laws.

There are no present arrangements, plans or negotiations for the sale or disposition by the Company of any of its assets. The number of possible purchasers for any one or more of the magazines is limited, and any arrangement for the purchase of a magazine would involve the assumption by the purchaser of the unfulfilled subscription liability.

In the event of a voluntary liquidation, the net proceeds from the sale of the assets would be used first to pay the general creditors and any amount remaining would be available for the Debentures, the Prior Preferred Stock and the Common Stock, in that order. It is not known whether any amount would be available for payment of the Debentures. However, if the Company should be forced to suspend publication of its magazines, particularly HOLIDAY magazine, the Company might be required to pay cash refunds to the extent that substitute magazines were not accepted by the subscribers, in which event, depending upon the amount of the cash refunds, the Debentures might receive nothing.

ELECTION OF DIRECTORS

Nominees for Director

At the Annual Meeting the holders of the Common Stock and Prior Preferred Stock voting together will elect seven directors to serve for one year terms. In addition, the holders of the Prior Preferred Stock voting as a class, will elect two directors to serve for one year terms or until the plan of recapitalization and acquisition becomes effective, whichever occurs first, in a separate election pursuant to the Articles of Incorporation which provide that if at any time six quarterly fixed dividends of Prior Preferred Stock are in arrears (39 quarterly fixed dividends are now in arrears), then, until all such arrearages are paid in full, the holders of the Prior Preferred Stock, voting as a single class, are entitled to elect two directors. Fixed dividend arrearages at May 1, 1972 were \$30.00 per share on \$4.00 (\$3.00 cumulative, \$1.00 contingent) Dividend Series Prior Preferred Stock and \$6.00 per share on the \$1.60 (\$.60 cumulative, 1.00 contingent) Dividend Series Prior Preferred Stock. The last payment of regular quarterly fixed dividends on the Prior Preferred Stock was made on April 1, 1961. On January 31, 1964 the Company paid the quarterly fixed dividends for the period from July 1, 1961 to and including April 1, 1962. The contingent dividends on the Prior Preferred Stock have not been earned since they were last paid on April 1, 1960. Although there was net income during the year ended December 31, 1971, there were no available earnings for this period, as defined in the Indenture, for the payment of interest on the outstanding Debentures, and no contingent dividends were earned on the Prior Preferred Stock for this year.

In elections for directors every shareholder of the Company entitled to vote has the right to vote in person or by proxy the number of shares of voting securities owned by him for as many persons as there are directors of a single class to be elected, or to cumulate his votes and give one candidate as many votes as will equal the number of such shares multiplied by the number of such directors, or to distribute such votes so computed among as many candidates in such class as he shall determine.

Proxies in the accompanying forms, properly executed, will be voted for the election of the nine nominees listed below, but, if any one or more of such nominees should become unavailable, discretionary authority is reserved to cast votes for the election of a substitute or substitutes. The management presently does not know of any director who will not continue to be a nominee or will not be able to serve if elected.

Name	Principal Occupation	Director Since	Amount of Securities Beneficially Owned Directly or Indirectly March 15, 1972		
			\$4.00 Dividend Series	\$1.60 Dividend Series	Common Stock, \$1.00 par value
Frederic A. Birmingham	Associate Publisher and Managing Editor, THE SATURDAY EVENING POST(1)	—	—	—	—
Brady O. Bryson	Partner, Morgan, Lewis & Bockius (attorneys at law)	1969	—	—	—
John Burkhart	President, College/University Corporation (a life insurance company holding company)	1971	—	—	—
Carson Emmons*	Former Partner, Ernst & Ernst	1971	—	—	—
James N. Kise	Partner, David A. Crane & Partners (architects and city planners)	1970	(2)	—	10(2)
Arthur R. Murphy, Jr.	President, Commercial Communication Corporation (consultants in graphic arts and magazine publishing)	1969	—	—	200
Robert D. Patterson*	Treasurer and director, Foursquare Fund, Inc. and Foursquare Corporation (investments)	1967	100	—	—
Knox M. Pitts, II	Consultant to the Company for subscription, circulation and computer services	—	—	—	—
Beurt R. SerVaas	Chairman of the Board, President and Treasurer of the Company	1970	—	28,348	711,156

* Nominee for election at the Annual Meeting by the Prior Preferred Stock voting as a class.

- (1) Since 1970 Mr. Birmingham has been employed by the Company in various editorial capacities. From 1968 to 1970 Mr. Birmingham was Senior Editor of STATUS magazine and from 1967 to 1968 was Editorial Director of STATUS and DIPLOMAT magazines. From August 1965 to October 1966 Mr. Birmingham was Senior Editor of THE READER'S DIGEST magazine.
- (2) Mr. Kise's wife owns beneficially 2,000 shares of \$4.00 Dividend Series Prior Preferred Stock and 7,000 shares of Common Stock, \$1.00 par value. Mrs. Kise also has the beneficial interest in certain trusts which hold an aggregate of 31,061 shares of \$4.00 Dividend Series Prior Preferred Stock and 29,797 shares of Common Stock.

Mr. Pitts has been a consultant to the Company for subscription, circulation and computer services since 1971. From October, 1964 through May, 1972, Mr. Pitts was a Vice President and the General Manager of Computer Services Company (subscription, circulation and computer services) of Terre Haute, Indiana, of which he was a co-founder.

Directors and Officers

332a

The present directors and executive officers of the Company are:

<u>Name</u>	<u>Office</u>
Beurt R. SerVaas(1)	Chairman of the Board, President, Treasurer and Director
Margaret B. Wilkinson	Vice President and Secretary
Harry F. Appelstein	Director
Brady O. Bryson(1)	Director
John Burkhart	Director
William P. Cole(1)	Director
Carson Emmons(1)	Director
James N. Kise (1)(2)	Director
Arthur R. Murphv, Jr.	Director
Robert D. Patterson(2)	Director

(1) Member of the Executive Committee. Mr. SerVaas is Chairman of the Executive Committee.

(2) Elected by the Prior Preferred Stock voting as a class.

Mr. SerVaas was elected President and a director of the Company on May 26, 1970. For more than the past five years, Mr. SerVaas has been President and indirect owner of Review Publishing Co., Inc. During the same period, he has also been Chairman of the Board and controlling shareholder, directly or indirectly, of North Vernon Forge, Inc. (manufacturers of automotive parts and proprietary products), SerVaas Laboratories, Inc. (manufacturing chemists), SerVaas Investment Corp. (real estate holding company) and SerVaas, Inc. (a holding company). SerVaas, Inc. owns all the outstanding capital stock of Review Publishing Co., Inc., and North Vernon Forge, Inc. Mr. SerVaas owns all of the outstanding capital stock of SerVaas, Inc. See "Review Publishing Co., Inc.—Business and Management".

Mrs. Wilkinson has been employed by the Company in various capacities for more than the last five years.

Remuneration

The following tabulation shows for the year ended December 31, 1971, the direct remuneration paid, on an accrual basis, and the benefits estimated to be payable upon retirement under a terminated pension plan, by the Company and its subsidiary (i) to each director of the Company whose aggregate direct remuneration exceeded \$30,000 and to each of the three highest paid officers of the Company whose aggregate direct remuneration exceeded that amount, and (ii) to all persons, as a group, who were directors or officers of the Company at any time during the year 1971.

<u>Name of Individual or Identity of Group</u>	<u>Capacities in Which Remuneration Was Received</u>	<u>Aggregate Direct Remuneration in 1971</u>	<u>Equity in Pension Fund(1)</u>
Beurt R. SerVaas	President	\$ 50,000(2)	—
Kenneth B. Artz	Vice President and Treasurer	\$ 64,000(3)	\$ 2,840
Directors and officers as a group (15 persons)		\$182,491(4)	\$22,281(5)

(1) The Company Pension Plan and Trust was terminated effective December 31, 1970, and the amounts shown represent the purchase of annuities for the employees covered by the Plan at that date.

(2) For information concerning Mr. SerVaas' employment contract with the Company, see "Certain Transactions".

(3) Includes severance pay in the amount of \$36,000 pursuant to Mr. Artz's employment agreement with the Company which was terminated as of May 28, 1971 and \$10,000 for post employment services in the collection of a claim against a third party.

(4) Includes directors' fees aggregating \$20,950, \$17,900 paid on an accrual basis to Mr. Cole for consulting services, \$1,000 paid to Mr. Kise for promotion services, and \$200 paid to Mr. Appelstein for services rendered.

(5) Includes one officer in addition to Mr. Artz.

Stock Options

The only option to purchase securities of the Company which was outstanding on March 1, 1972, was an option to purchase 20,000 shares of Common Stock, \$1.00 par value, of the Company granted in 1962 to a former officer of the Company at a price of \$6.32 per share, which price was 85% of the fair market value of such stock on the date of grant. Such option was granted as an inducement to the former employee to enter the employ of the Company. Such option is exercisable through October 15, 1972. If the former employee dies prior to said date, any then unexercised portion of the option may be exercised before that date by an appointee under his Will or by his intestate heirs.

The Company has a stock option plan ("Plan") providing for the grant of "qualified stock options" as defined in Section 422 of the Internal Revenue Code of 1954, as amended. Under the Plan, stock options are generally exercisable cumulatively as to 20% of such shares in each of the five years following the date of grant. A maximum of 226,267 shares of Common Stock, \$1.00 par value, are reserved for exercise under the Plan. No options have been granted under the Plan since 1967 and no options under the Plan were outstanding as of December 31, 1971. No option may be granted thereunder after 1973.

Certain Transactions

The Company has an employment agreement with Mr. Beurt R. SerVaas, Chairman of the Board, President and Treasurer of the Company, under which the Company agrees to employ Mr. SerVaas in an executive capacity for a period of three years commencing July 1, 1970, and ending June 30 1973, with compensation at the rate of \$50,000 per year. This compensation will continue to be paid to Mr. SerVaas by the Company after the acquisition of the assets of Review in accordance with the terms of the employment agreement. Mr. SerVaas devotes more than 40 hours per week to the affairs of the Company and its subsidiary.

The Company's wholly owned subsidiary, The Saturday Evening Post Company, has entered into a management agreement with Review Publishing Co., Inc. (of which Mr. SerVaas is the President and, indirectly, the sole shareholder), under which Review has agreed to provide management services in connection with the publication of the magazines HOLIDAY, JACK AND JILL and the new quarterly THE SATURDAY EVENING POST for a period of three years commencing July 1, 1970, and ending June 30, 1973, for an annual fee of \$50,000 with a provision that if the first two magazines show an operating profit during the period July 1, 1972 to June 30, 1973, Review has the right to renew said agreement for an additional three year period ending June 30, 1976. On February 11, 1971, the Company entered into an agreement with Review covering the charges for certain services furnished to the Company by Review personnel on the premises of Review in Indianapolis, Indiana and the allocation between the two companies of rent and supplies. See "Services Provided by Review." Both the management agreement and the services agreement will be terminated upon the acquisition of Review by the Company.

In the fourth quarter of 1970, Mr. SerVaas purchased from the Trustees under Paragraph Tenth of the Will of Cyrus H. K. Curtis and from the late Cary W. Bok, who at the time were considered members of a control group of the Company, an aggregate of 711,156 shares of Common Stock, \$1.00 par value, at \$.10 per share, 28,348 shares of \$1.60 Dividend Series Prior Preferred Stock at \$1.00 per share and \$1,030,000 principal amount of Debentures of the Company at \$8.00 per \$100 principal amount for an aggregate cash consideration of \$181,864. During the fourth quarter of 1970, the high sales prices on the Philadelphia-Baltimore-Washington Stock Exchange of the Debentures, the \$1.60 Dividend Series Preferred Stock and the Common Stock were 22½, 3 and 2¾ and the low sales prices were 12¼, ¾ and ½, respectively. At the time of his acquisition of said Debentures, Mr. SerVaas granted to the Company options to repurchase all or any part of the Debentures at any time within three years from his date of acquisition thereof, at his acquisition price of \$82,400 plus interest thereon at an annual rate of ½ of 1% above the prime rate in effect from time to time at The Fidelity Bank, Philadelphia, Pennsylvania from the date of grant of the options to the exercise date. Interest in the amount of \$6,528.84 for the periods from the dates of purchase through March 31, 1972 on funds borrowed by Mr. SerVaas to purchase the Debentures has been paid to the lender by the Company for the account of Mr. SerVaas. On January 27, 1972, the Company elected to exercise the options at the option price of \$8 per \$100 principal amount of Debentures plus interest, subject to the plan of recapitalization and acquisition having been declared effective, payment of the option price to be made by an unsecured

90 day promissory note of the Company in the principal amount of \$82,400 plus accrued interest. The Company anticipates that such promissory note will be paid when due and the cash to be used in payment of the note has been reflected in the table entitled "Projected Changes in Cash (Unaudited)". The sources of the cash to be used by the Company to pay the \$82,400 plus interest are set forth in the portion of said table covering the three months ended December 31, 1972. However, there is no assurance that cash in that amount will be available for that purpose. Upon the effectiveness of the plan of recapitalization and acquisition, the Debentures owned by Mr. Ser-Vaas will be surrendered to the Company in exchange for such promissory note and be cancelled. Such Debentures will not participate in the Exchange Offer. 334a

Philip P. Kalodner acted as Chief Executive Officer of the Company from April 15, 1969 to April 24, 1969, on which date he was elected President, serving in that capacity until his successor was elected on May 27, 1969 following the Annual Meeting of Shareholders. Mr. Kalodner continued as a director until his resignation October 9, 1970. In 1969, the Company paid Mr. Kalodner \$27,700 for his services as an officer and director. The Company also paid the expenses, estimated at \$15,000, of Mr. Kalodner's unsuccessful proxy solicitation in connection with the 1969 Annual Meeting. For his services as an attorney rendered in 1969 and thereafter, the Company has paid Mr. Kalodner fees aggregating \$87,000. The Curtis Pension Trust for the same period paid him \$124,250 for services as an attorney and trustee. Directors' fees paid to him in 1970 amounted to \$4,900. In March 1971, the Company commenced suit against Mr. Kalodner seeking certain equitable relief. As part of the settlement of this litigation in June 1971, Mr. Kalodner assigned to the Company \$2,485,000 principal amount of Debentures, subject to an agreement between Mr. Kalodner and a third party from whom he had acquired the Debentures and to whom the Company agreed to pay \$161,525 for said Debentures by March 31, 1974. In June 1971 said Debentures had a market value of approximately \$500,000. On June 19, 1972, said Debentures had a market value of approximately \$670,000. Pursuant to the settlement, the Company paid Mr. Kalodner \$50,000 and agreed to pay him an additional amount of approximately \$220,000 of which approximately \$108,000 has been paid. The balance of approximately \$112,000 will be paid as the installments are received from Penntech Papers, Inc. pursuant to the compromise settlement described under "Recent Developments — Disposition of Assets — Paper Mill". The gain on the acquisition of said \$2,485,000 principal amount of Debentures was \$2,629,000 and constituted a significant part of the extraordinary items reflected in the Consolidated Statement of Operations of the Company and Subsidiaries for the year ended December 31, 1971.

For services rendered in 1969, 1970 and 1971 the Company paid aggregate legal fees of \$615,000, \$1,029,000 and \$557,000, respectively, of which \$255,000, \$433,000 and \$415,000, respectively, were paid to the firm of Morgan Lewis & Bockius. Messrs. W. James MacIntosh and Brady O. Bryson, both of whom were elected directors at the 1969 Annual Meeting of Shareholders, are partners of Morgan, Lewis & Bockius by whom Mr. Appelstein, a director, is presently employed. In addition, the Company has paid \$50,000 to that firm as its fee for legal services rendered to the Curtis Shareholders Committee in connection with the 1969 Annual Meeting of Shareholders and \$73,500 for services rendered to the Trustees under Paragraph Tenth of the Will of Cyrus H. K. Curtis principally in connection with a class action by one of the Trustees against the Company and certain of its former officers and directors, which suit has been discontinued with prejudice. In addition, that firm has received \$35,302 principally for services rendered in connection with the termination of the Curtis Pension Plan and Trust and the establishment of the Pension Plan and Trust of its subsidiary. The firm is also the sublessor under the sublease with respect to the Company's corporate headquarters office in Philadelphia. See "Property". In the current fiscal year the Company has paid \$122,000 in legal fees to Morgan, Lewis & Bockius. Payments for services rendered during the remainder of the current fiscal year will depend upon the amount of legal services rendered and the availability of cash.

Mr. John Burkhart, a nominee for director of the Company, holds an aggregate of \$100,000 principal amount of 5% Convertible Debentures of Review Publishing Co., Inc. Fifty thousand dollars principal amount of Debentures are due December 1, 1972 and another \$50,000 principal amount of Debentures are due January 15, 1973. The Debentures are convertible into common stock of Review, but Mr. Burkhart has waived his conversion rights subject to the plan of recapitalization and acquisition becoming effective. Review does not intend to use its cash resources to pay the debentures when due, but plans either to extend the maturities thereof or to refinance them. Note D to Consolidated Financial Statements of Review and Subsidiary. There is no assurance that the maturities of said debentures can be extended or that said debentures can be refinanced.

RECENT DEVELOPMENTS

335a

During the past four years of continued operating losses and several changes of management, certain significant events, including the disposition of major business properties and the resolution of a number of large claims against the Company, and other matters have occurred, among which are the following:

Disposition of Assets

Circulation and Subscription Companies. In May 1968, the Company sold to Perfect Film & Chemical Corporation (now Cadence Industries, Inc. and herein called Perfect Film) its subscription and circulation companies, comprised of substantially all of the assets of Keystone Readers' Service, Inc. and Curtis Circulation Company and the capital stock of The Moore-Coutrell Subscription Agencies, Inc., in consideration, initially, of \$12,500,000 of Perfect Film notes, subject to adjustment. The amount of the consideration was arbitrated and resulted in an additional payment to the Company of \$300,000. The resulting gain of \$3,421,000 (which includes the gain from the sale of the Book Division discussed hereinafter) was recorded as an extraordinary credit in 1968. Mr. Martin S. Ackerman, who was President and a director of the Company from April 1968 to March 1969, was President of Perfect Film & Chemical Corporation at the time of the sale.

The Curtis Building. In 1968, The Curtis Building in Philadelphia was sold to a representative of John W. Merriam for \$7,300,000 (which resulted in a gain on the sale of \$1,104,000). The Company subsequently leased back a large part of the premises pursuant to a long term lease which was terminated by a negotiated agreement in August 1970 in consideration of a lump sum payment by the Company of \$658,000. The Company was thereby relieved of a potential obligation of \$3,216,000 over the remaining term of the lease. The Company no longer occupies any part of the premises.

LADIES HOME JOURNAL and AMERICAN HOME Magazines. By an agreement dated August 14, 1968, the Company sold the LADIES HOME JOURNAL, AMERICAN HOME and CALIFORNIA AMERICAN HOME to Downe Communications, Inc. (Downe) for common stock of Downe, which stock was sold and the net proceeds thereof, in the amount of \$4,472,500, applied as a partial payment on account of the Company's then outstanding secured indebtedness held by Perfect Film. Earlier in 1968 Perfect Film had acquired all of the Company's outstanding loans, including bank loans, which amounted in the aggregate to approximately \$13,225,000. The sale resulted in a gain for book purposes of \$13,683,000.

Book Division. Certain assets of the Company's Book Division, which published, under agreements with the copyright owners, several encyclopedias and historical book sets, were transferred to Perfect Film under an agreement dated October 14, 1968 for approximately \$1,237,000.

Paper Mill. In August 1969, the Company's coated magazine paper and business converting paper mill at Johnsonburg, Pennsylvania was disposed of by the sale of all of the capital stock of New York & Pennsylvania Co., Inc. (the Company's subsidiary which owned and operated the mill) to The Repap Corporation (now Penntech Papers, Inc.) for a cash consideration of approximately \$4,000,000 of which \$3,180,000 was paid at settlement and the balance deferred. Payment of the deferred portion was the subject of a dispute which has been resolved pursuant to a compromise settlement in the amount of \$700,000 payable to the Company in quarterly installments which commenced December 1971, with the final payment due in January 1973. At June 1, 1972, the amount unpaid was \$490,000. The quarterly installment of \$105,000 due July 1, 1972, has not been paid and the Company has exercised its option to accelerate the maturity of the entire unpaid balance. The Company expects to receive payment of the entire unpaid balance of \$490,000 prior to December 31, 1972. See "Projected Changes in Cash (Unaudited)". This sale, together with the sale of The Packard Press, Inc. discussed below, resulted in a loss of \$12,300,000.

The Packard Press, Inc. In August 1969, the Company also sold to Philadelphia Printing Properties, Inc. all of the capital stock of The Packard Press, Inc. (Packard), a subsidiary acquired for cash and notes in June 1967 which engaged in commercial offset and letterpress printing, together with certain other assets including a printing press and certain commercial printing facilities, for a cash consideration of approximately \$874,000. Certain of the installment notes in the remaining principal amount of \$33,500 issued in connection with the Company's acquisition of Packard in 1967 were outstanding as of March 1, 1972.

STATUS Magazine. On March 23, 1970, STATUS, a society magazine was sold to Show Publications, Inc. for a cash consideration of \$10,000 and the assumption of \$40,000 of subscription fulfillment liabilities.

The follow
adjusted to giv
of all of the Pr
Publishing Co.

Sharon Hill Printing Plant. The real estate, buildings and building equipment of the Company's former main printing plant at Sharon Hill, Pennsylvania consisting of 108 acres of land, and buildings with approximately 700,000 feet of usable floor space, were conveyed to General Electric Company on August 3, 1970 pursuant to the Land Purchase Option Agreement with General Electric Company dated March 16, 1970, for a cash consideration of \$9,250,000, a major part of the net proceeds of which was ultimately paid to discharge certain federal tax liens. See "Termination of Certain Adverse Claims". The sale was approved at the Annual Meeting of Shareholders of the Company held May 18, 1970. The lack of adequate work to permit profitable operations had resulted in the termination of all printing operations at the plant on July 3, 1969. The aggregate net cash proceeds to the Company amounted to approximately \$7,200,000. Concurrently with the sale, in separate transactions the Company disposed of the printing and related machinery and equipment located in the Sharon Hill printing plant under agreements which resulted in the discharge of equipment obligations aggregating \$1,700,000. The loss on the sale of the plant and related equipment approximated \$17,000,000. 336a

Termination of Certain Adverse Claims.

Disputes with Perfect Film & Chemical Corporation. By a Settlement Agreement dated November 26, 1969, certain substantial claims by and among the Company, its subsidiary The Saturday Evening Post Company (SEPCO), and Perfect Film were settled. Ancillary to the settlement, \$10,000,000 principal amount of SEPCO notes were satisfied for \$8,500,000. Pursuant to the Settlement Agreement, the amount of the purchase price for the Company's subscription and circulation companies acquired by Perfect Film in May 1968 was to be submitted to arbitration. See "Disposition of Assets" above.

Settlement of Certain Federal Tax Claims. In July 1970, the Company and the Internal Revenue Service settled for approximately \$3,383,000 (plus interest) federal income tax deficiency claims of \$5,916,000 (plus interest), relating to intercompany charges, which had been asserted by the Internal Revenue Service in 1968 against two of the Company's subsidiaries. The settlement was paid out of the net proceeds from the sale of the Sharon Hill Printing Plant and the excess was released to the Company.

Federal Trade Commission. On June 30, 1971, the Federal Trade Commission entered a final order dismissing the claim filed by it in 1969 seeking an order requiring the Company to offer cash refunds for the uncompleted portions of subscriptions to the former THE SATURDAY EVENING POST, publication of which was discontinued in early 1969. The order has the effect of relieving the Company from a potential contingent liability in excess of \$20 million, although a class action involving substantially the same issues is pending in Florida. See "Litigation".

Short-Term Debt
Notes Payable
Long-Term Debt
Notes Payable
Thirty Year 6
Subordinated
Income Debt
tures, due
ber 1, 1
Accrued
Interest
Shareholders' Equ
(deficit)
Prior Preferred
Stock, no pa
value \$4
Dividend Ser
(\$3 cumulati
additional \$1
cumulative to
extent earned
\$1.60 Dividend
Series (\$6.0
cumulative,
additional \$1
cumulative t
extent earned
Common Stock
\$1 par value
Common Stock
par value (\$
value \$.10)
Capital Surplus
Deficit
Shareholder
Equity
(deficit)

Reference
to lease obligat
(1) A maximu
(2) A maximu

CAPITALIZATION

Following table shows the capitalization of the Company and its consolidated subsidiaries as of March 31, 1972 and as the effect to the exchange of the outstanding Debentures for New Common Stock, reclassification, change and conversion of Preferred and old \$1 par Common Stock into the New Common Stock and the acquisition by the Company of Review, Inc.

Amount Authorized or to be Authorized	Amount Outstanding as of March 31, 1972	Par or Stated Value as of March 31, 1972	Pro Forma					
			If 100% Principal Amount of 6% Subordinated Debentures were Exchanged	Amount to be Outstanding Upon Completion of Exchange	Par or Stated Value at Completion of Exchange	If 90% Principal Amount of 6% Subordinated Debentures were Exchanged	Amount to be Outstanding Upon Completion of Exchange	Par or Stated Value at Completion of Exchange
	\$ 159,575	\$ 159,575	\$480,722	\$480,722	\$480,722	\$480,722	\$480,722	\$480,722
	4,104	4,104	88,751	88,751	88,751	88,751	88,751	88,751
986. \$10,605,000	7,485,000	7,485,000	—	—	646,000	646,000	1,615,000	1,615,000
	2,470,000	2,470,000	—	—	214,000	214,000	545,000	545,000
334,470 shs.	334,470 shs.	16,724,000	—	—	—	—	—	—
239,418 shs.	239,418 shs.	2,394,000	—	—	—	—	—	—
8,000,000 shs. (1)	3,555,568 shs.	3,555,568	—	—	—	—	—	—
8,000,000 shs. (2)	—	—	2,398,518 shs.	239,852	2,335,001 shs.	233,500	2,239,725 shs.	223,972
		983,000						
		(36,787,000)		(4,154,000)		(5,008,000)		(6,288,000)
		<u>\$ (13,131,000)</u>		<u>\$ (3,914,000)</u>		<u>\$ (4,774,000)</u>		<u>\$ (6,064,000)</u>

is made to Note 7 to the Consolidated Financial Statements of the Company and Subsidiaries for information pertaining to the exchange of the outstanding Debentures for New Common Stock, reclassification, change and conversion of Preferred and old \$1 par Common Stock into the New Common Stock and the acquisition by the Company of Review, Inc.

um of 246,267 shares are reserved for issuance upon the exercise of options. See "Election of Directors—Stock Options".
um of 24,627 shares will be reserved for issuance upon the exercise of options.

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS

338a

The consolidated statement of operations of The Curtis Publishing Company and Subsidiaries for the three years ended December 31, 1971, has been examined by Arthur Andersen & Co., independent public accountants, as set forth in their report (wherein they are unable to render an opinion) included elsewhere herein. The consolidated statement of operations for the two years ended December 31, 1968, not covered by auditors' report, and the consolidated statement of operations for the three months ended March 31, 1972 and 1971, not examined by independent public accountants, reflect, in the opinion of the Company, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the results of operations for the periods. The statement should be read in conjunction with the notes and with the consolidated financial statements and related notes thereto, contained elsewhere herein.

	Three Months Ended March 31,		Years Ended December 31,				
	1972 (unaudited)	1971	1971	1970	1969	1968	1967 (not covered by Auditors' Report)
(in thousands of dollars)							
Net Revenues (Notes a and b):							
From magazine advertising ..	\$ 561	\$ 856	\$ 2,082	\$ 3,691	\$ 6,659	\$ 48,486	\$ 71,392
From circulation, books, paper, printing and other sources	1,100	946	3,812	3,224	25,372	50,199	53,225
	<u>\$1,661</u>	<u>\$1,802</u>	<u>\$ 5,894</u>	<u>\$ 6,915</u>	<u>\$ 32,031</u>	<u>\$ 98,685</u>	<u>\$124,617</u>
Costs and Expenses:							
Production and delivery before depreciation and depletion (Note d)	\$1,197	\$1,293	\$ 4,139	\$ 5,734	\$ 32,426	\$ 77,914	\$ 85,140
Selling, general and administrative	491	704	3,381	4,341	8,478	32,648	39,560
Reductions of reserves (Note f)	—	—	(1,126)	(800)	—	—	—
Depreciation and depletion ..	6	2	23	13	1,789	3,307	3,147
Interest, net	105	107	377	554	475	1,495	1,495
	<u>\$1,799</u>	<u>\$2,106</u>	<u>\$ 6,794</u>	<u>\$ 9,842</u>	<u>\$ 43,168</u>	<u>\$115,364</u>	<u>\$129,342</u>
Loss from Operations of The Saturday Evening Post Company (Note a)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,604	\$ —
Income (loss) before income taxes and extraordinary items	\$ (138)	\$ (304)	\$ (900)	\$ (2,927)	\$ (11,137)	\$ (18,283)	\$ (4,725)
State and Foreign Income Taxes ..	—	—	—	—	—	—	114
Income (loss) before extraordinary items	\$ (138)	\$ (304)	\$ (900)	\$ (2,927)	\$ (11,137)	\$ (18,283)	\$ (4,839)
Extraordinary Items, net (Notes c and e)	—	—	3,144	2,917	(8,296)	(2,603)	—
Net income (loss)	<u>\$ (138)</u>	<u>\$ (304)</u>	<u>\$ 2,244</u>	<u>\$ (10)</u>	<u>\$ (19,433)</u>	<u>\$ (20,886)</u>	<u>\$ (4,839)</u>
Weighted Average Number of Shares	<u>3,555,568</u>	<u>3,555,568</u>	<u>3,555,568</u>	<u>3,555,568</u>	<u>3,555,568</u>	<u>3,555,568</u>	<u>3,542,110</u>
Per Share of Common Stock (after provision for cumulative unpaid dividends of \$1,147,000 annually):							
(Loss) before extraordin- ary items	\$ (.12)	\$ (.17)	\$ (.57)	\$ (1.15)	\$ (3.45)	\$ (5.46)	\$ (1.69)
Extraordinary items, net ..	—	—	.88	.82	(2.33)	(.74)	—
Net income (loss)	<u>\$ (.12)</u>	<u>\$ (.17)</u>	<u>\$.31</u>	<u>\$ (.33)</u>	<u>\$ (5.78)</u>	<u>\$ (6.20)</u>	<u>\$ (1.69)</u>

The net revenues, advertising and circulation income, attributable to operations of THE SATURDAY EVENING POST (a new quarterly publication in 1971), HOLIDAY and JACK AND JILL magazines continuing after December 31, 1971, were approximately \$5,700,000 in 1971. Net revenues for the five years ended December 31, 1971 are not indicative of future net revenues because of the disposition of substantial portions of the operations during these periods. Also, the results of operations for the three months ended March 31, 1972 are not necessarily indicative of the results of operations for a full year. Discontinued operations cannot be set forth separately since during 1969 the operation of HOLIDAY, JACK AND JILL and STATUS magazines was controlled by Perfect Film & Chemical Corporation and operating control was not returned to the Company until December 1969. It is not practicable to estimate the costs and expenses applicable to these operations for this reason. The integration of the accounting records of the Company also precluded segregation of costs and expenses attributable to discontinued operations for the years 1967 and 1968.

The accompanying notes and Notes to Financial Statements are an integral part of this statement.

NOTES TO STATEMENTS OF OPERATIONS, CONSOLIDATED AND PARENT COMPANY

339a

(including unaudited periods and periods not covered by Auditors' Report):

- (a) At December 31, 1968, 50% of the common stock of The Saturday Evening Post Company (SEPCO) was held by Cadence Industries Corp. (formerly Perfect Film & Chemical Corporation) which stock was transferable to Curtis upon repayment of a loan from Cadence discussed in Note 10. On December 3, 1969, as a result of a settlement agreement with Cadence, Curtis acquired operating control of SEPCO. In its 1968 financial statements, Curtis did not consolidate SEPCO but included its investment as a separate item in the balance sheet and recorded the \$1,604,000 operating loss of SEPCO for that year in the Statement of Operations as a separate item. Since 1969, SEPCO has been consolidated in the Curtis financial statements.
- (b) Prior to 1971, the Company sold or otherwise disposed of the major portion of its properties. The remaining business of the Company (operated by a wholly-owned subsidiary) at December 31, 1971 and March 31, 1972, consists of the publication of HOLIDAY, JACK and JILL, and the new quarterly publication, THE SATURDAY EVENING POST magazines. Net revenues and operating income (loss), before corporate expenses not directly allocable to the operations of these magazines, for the twelve months ending December 31, 1969, 1970 and 1971 and three months ended March 31, 1972, were approximately:

	Net Revenues	Operating Income (Loss)
1972 (3 months ended March 31) (unaudited)	\$1,646,000	\$ 37,000
1971	5,700,000	(1,150,000) *
1970	6,700,000	(1,700,000)
1969	9,400,000	(1,500,000)

*Includes estimated start-up costs of the new quarterly publication, THE SATURDAY EVENING POST magazine, of approximately \$250,000.

- (c) The Company had extraordinary items in 1971, 1970, and 1969 increasing (decreasing) income as follows:

Consolidated	Amount		
	1971	1970	1969
	(in thousands of dollars)		
Reversal (provision) for obsolescence of plants and losses on sale of plants (Note 2)	\$ —	\$ 281	\$ (4,800)
Reversal (provision) for future losses of home office lease obligations (Note 7)	—	1,636	(2,500)
Gain on sale (writedown) of marketable securities (Note 5)	215	—	(2,975)
(Provision) for severance and vacation pay	—	—	(2,700)
(Adjustment) of furniture and equipment based on physical inventory, unrecorded retirements, etc., net of reserve of \$575,000 ..	—	—	(211)
Gain on the curtailment of THE SATURDAY EVENING POST circulation (Note 14)	—	1,000	3,688
Arbitration gain on sale of certain subsidiaries (Note 10)	300	—	—
Gain on settlement of SEPCO notes (Note 12)	—	—	1,202
Gain on purchase of 6% Subordinated Income Debentures (Note 8)	2,629	—	—
	<u>\$ 3,144</u>	<u>\$ 2,917</u>	<u>\$ (8,296)</u>

340a

Parent Company	Amount		
	1971	1970	1969
	(in thousands of dollars)		
Reversal (provision) for obsolescence of plants and losses on sale of plants (Note 2)	\$ —	\$ 281	\$ (4,800)
Reversal (provision) for future losses on home office lease obligations (Note 7)	—	1,636	(2,500)
(Provision) for severance and vacation pay	—	—	(2,700)
Adjustment of furniture and equipment based on physical inventory, unrecorded retirements, etc., net of reserve of \$575,000 ..	—	—	125
Arbitration gain on sale of certain subsidiaries (Note 10)	300	—	—
Gain on the curtailment of THE SATURDAY EVENING POST circulation (Note 14)	—	975	3,688
Gain on purchase of 6% Subordinated Income Debentures (Note 8)	2,629	—	—
	<u>\$ 2,929</u>	<u>\$ 2,892</u>	<u>\$ (6,187)</u>

Extraordinary items for 1968 include an arbitrary provision for losses on obsolescence of plants, \$20,000,000; gain on sale of Independence Square Building, \$1,104,000; gain on sale of assets and stock of certain subsidiaries, \$3,421,000 which gain was increased by \$300,000 in 1971, through arbitration, (see Note 10); gain on sale of LADIES' HOME JOURNAL and AMERICAN HOME, \$13,683,000; gain on curtailment of THE SATURDAY EVENING POST circulation, \$703,000; provision for future losses on home office lease obligations, \$1,514,000.

(d) Inventories used in the computation of cost of goods sold were as follows:

Consolidated	March 31, 1972	December 31,			
		1971	1970	1969	1968
		(in thousands of dollars)			
Paper and other materials and supplies, at the lower of average cost or market	\$ 28	\$ 29	\$ 144	\$ 576	\$ 5,354
Publications in process, manuscripts, etc., at average cost	67	87	114	256	506
Books and other products purchased for resale at the lower of cost (first-in, first-out basis) or market	—	—	—	—	1,455
Total	<u>\$115</u>	<u>\$ 116</u>	<u>\$ 258</u>	<u>\$ 832</u>	<u>\$ 7,315</u>
Parent Company					
Paper and other materials and supplies, at the lower of average cost or market	\$ —	\$ —	\$ —	\$ 119	\$ 2,270
Publications in process, manuscripts, etc., at average cost	—	—	—	—	378
Books and other products purchased for resale at the lower of cost (first-in, first-out basis) or market	—	—	—	—	1,455
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 119</u>	<u>\$ 4,103</u>

(e) No provision has been made for Federal income taxes relating to extraordinary credits not taxable or in any year that the consolidated statement of operations reflects a net loss.

(f) Reserves had been provided in prior years, based upon best estimates of collectability of the applicable receivables or for anticipated results of disputed items. The Company has reduced such reserves (net of additional provisions of \$375,000 in 1971 and \$435,000 in 1970) to the extent of subsequent collections or settlements of disputed items.

The table below shows a summary of consolidated operations for the two months ended May 31, 1972 and 1971. This summary is unaudited, but reflects, in the opinion of the Company, all adjustments, consisting only of normal recurring adjustments, necessary to summarize fairly the results of operations for the periods. The 1972 interim results are not necessarily indicative of the results of operations for the year.

	Two Months Ended May 31,	
	1972	1971
Net revenues	\$635,000	\$806,000
Net (loss)	(191,000)	(331,000)
Net (loss) per share of common stock (after provision for cumulative unpaid dividends of \$1,147,000 annually)	(.11)	(.14)

All expenses attributable to publications have been considered as a period cost and expensed when occurred. Revenues are recorded upon publication of an issue. Revenues for the two months ended May 31, 1972, are significantly less than revenues for the three months ended March 31, 1972, since the regular quarterly issue of THE SATURDAY EVENING POST magazine was not published until June, 1972.

In April and May, 1971, the Company had incurred \$110,000 of expenses applicable to THE SATURDAY EVENING POST magazine. The first revenues attributable to THE SATURDAY EVENING POST magazine were recorded in June, 1971, concurrent with the publication of the initial issue.

As of May 31, 1972, the Company had deferred \$97,000 of expenses (of which \$21,000 had been paid) incidental to the Company's plan of recapitalization and acquisition. These expenses will be charged to capital surplus upon consummation of the plan of recapitalization and acquisition.

REVIEW PUBLISHING CO., INC. AND SUBSIDIARY
STATEMENT OF CONSOLIDATED OPERATIONS

342a

The following statement of consolidated income for the four years and nine months ended July 31, 1971, has been examined by Ernst & Ernst, independent accountants, whose report thereon is included elsewhere herein. The statement for the eight months ended March 31, 1971 and March 31, 1972, is unaudited, but it includes all adjustments (consisting only of normal recurring accruals) which the Company considers necessary for a fair presentation of the results of operations for those periods. The interim results of operations for the eight months ended March 31, 1972, are not necessarily indicative of the results of operations for the fiscal year. This statement should be read in conjunction with the notes hereto and with the other financial statements and related alphabetical notes of Review Publishing Co., Inc. and subsidiary included elsewhere herein.

	Eight Months Ended March 31, (Unaudited)		Year Ended July 31,				Nine Months Ended July 31, 1967 (1)
	1972	1971	1971	1970	1969	1968	
Income:							
Magazine subscriptions	863,168	\$ 813,312	\$ 1,090,867	\$ 906,676	\$ 633,641	\$ 464,255	\$ 310,241
Commercial and other advertising ..	227,136	207,203	335,867	348,493	281,647	233,281	163,532
Management and fulfillment fees ..	135,148	103,689	160,356	-0-	-0-	-0-	-0-
Subscription list rental	56,990	34,689	82,454	39,664	15,282	17,970	7,779
Employment fees	28,167	33,620	46,313	69,611	95,252	61,750	44,453
Commissions and other income	83,145	21,150	72,607	39,992	43,960	31,401	41,916
	<u>1,393,754</u>	<u>1,213,663</u>	<u>1,788,464</u>	<u>1,404,436</u>	<u>1,069,782</u>	<u>808,657</u>	<u>567,921</u>
Costs and expenses:							
Cost of publications	785,806	681,990	891,633	700,925	589,085	417,832	251,072
Selling, administrative and general ..	563,223	489,204	893,312	743,614	537,809	469,553	264,365
Interest	6,027	6,869	11,185	11,100	11,971	8,502	2,971
	<u>1,455,056</u>	<u>1,178,063</u>	<u>1,796,130</u>	<u>1,455,639</u>	<u>1,138,865</u>	<u>895,887</u>	<u>518,408</u>
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	(61,302)	35,600	(7,666)	(51,203)	(69,083)	(87,230)	49,513
Federal income taxes (2)	-0-	10,590	-0-	-0-	-0-	-0-	17,300
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	(61,302)	25,010	(7,666)	(51,203)	(69,083)	(87,230)	32,213
Extraordinary credit—reduction of federal income taxes as a result of operating loss carryforwards (2)	-0-	10,590	-0-	-0-	-0-	-0-	-0-
Extraordinary charge—loss on disposal of subsidiary less applicable income taxes	-0-	-0-	-0-	-0-	-0-	-0-	50,169
NET INCOME (LOSS)	\$ (61,302)	\$ 35,600	\$ (7,666)	\$ (51,203)	\$ (69,083)	\$ (87,230)	\$ 17,956
Number of Common Stock shares outstanding at end of period	100	100	100	100	100	100	100
Per share of Common Stock:							
Income (loss) before extraordinary items	\$ (613)	\$ 250	\$ (77)	\$ (512)	\$ (691)	\$ (872)	\$ 322
Extraordinary items (charge)	-0-	106	-0-	-0-	-0-	-0-	(502)
Net income (loss)	\$ (613)	\$ 356	\$ (77)	\$ (512)	\$ (691)	\$ (872)	\$ (180)

- (1) The Company changed its fiscal year end to July 31 effective in 1967.
- (2) Federal income taxes have been computed as though the Company filed a separate tax return. The Company and its subsidiary actually filed a consolidated federal income tax return with the parent company, SerVaas, Inc. There is no reimbursement to the Company for the tax benefits resulting from reductions of taxable income of other companies in the consolidated group by the losses of the Company, and at July 31, 1971, all losses have been utilized.

CERTAIN FACTORS AFFECTING OPERATING RESULTS

343a

Costs and expenses for the eight months ended March 31, 1972, include approximately \$52,200 in amortization of prepaid circulation promotion expenses incurred to establish a national sales organization to replace contract service business. The remaining prepaid circulation promotion expenses of approximately \$85,000 are to be amortized by the end of Review's fiscal year ended July 31, 1972. Also included in 1972 are costs and expenses of approximately \$68,500 incurred by the Company's new subsidiary, Indiana Business Magazine, Inc., (acquired in March, 1971) for which no expenses were incurred during the comparable eight month period of 1971. As a part of this acquisition Review has undertaken the fulfillment of any then outstanding subscriptions without realizing any related revenue. The cost of fulfilling acquired subscriptions together with the cost of rehabilitating the publication have been charged to income as incurred. The operations of this subsidiary resulted in a net loss of approximately \$29,300 for the eight months ended March 31, 1972.

In March, 1972, the Company began fulfilling "one-time only" requests for current issues of any or all of three children's magazines which are publicized on cereal boxes through a cooperative effort with a national cereal manufacturer and given free as a part of a national promotion program to increase subscriptions. Costs estimated at \$18,000 are included in expenses in connection with this program.

Postage is a substantial expense to Review primarily in connection with subscription and newsstand deliveries. Since subscription rates can be increased only at renewal dates, interim increases in postage costs have affected Review in recent years. Further postal rate increases are pending. Similarly, increases in printing costs can adversely affect Review since it prints none of its magazines but contracts with printers in several states for these services.

The table below shows a summary of consolidated operations for the two months ended May 31, 1972 and 1971. This summary is unaudited, but it includes all adjustments (consisting only of normal recurring accruals) which the Company considers necessary for a fair presentation of the results of operations for those periods. The 1972 interim results are not necessarily indicative of the results of operations for the year.

	Two Months Ended May 31,	
	1972	1971
Revenues	\$529,087	\$262,879
Net (loss)	(134,337)	(23,402)
Net (loss) per share of common stock	(1,343)	(234)

The results of operations continue to be affected by the expense of establishing a new national sales organization (\$43,800 for the two months ended May 31, 1972); by the Company's investment in its new subsidiary, Indiana Business Magazine, Inc. (\$2,800 net loss for the two months ended May 31, 1972—there was no significant effect on the operations for 1971); and by expenses incurred in promoting subscriptions through the cooperative effort with the national cereal manufacturer (\$26,000 for the two months ended May 31, 1972). These factors accounted for approximately \$72,600 of the loss for the two months ended May 31, 1972. In addition, losses of \$22,000 were incurred in April and May, 1972 in connection with the first issues of a new magazine, Barbie Talk.

PRO FORMA COMBINED SUMMARY INCOME STATEMENT
(unaudited)

344a

The following pro forma summary income statement combines the consolidated statements of income (loss), before extraordinary items, of The Curtis Publishing Company and Subsidiary for the unaudited twelve month period ended March 31, 1972, and Review Publishing Co., Inc. and Subsidiary for the unaudited twelve month period ended March 31, 1972, which reflects, in the opinion of the Company, all adjustments (which included only normal recurring adjustments) necessary for a fair presentation of the results of operations for this unaudited period.

This statement should be read in conjunction with the financial statements and related notes thereto of the companies appearing elsewhere herein.

	The Curtis Publishing Company and Subsidiaries	Review Publishing Co., Inc. and Subsidiary	Pro Forma Adjustments	PRO FORMA COMBINED Assuming Exchange of 6% Subordinated Debentures if the Following Principal Amounts are Exchanged		
				100%	90%	75%
	(in thousands of dollars)					
Net Revenues	\$ 5,753	\$ 1,969	\$(217)(a)	\$ 7,505	\$ 7,505	\$ 7,505
Costs and Expenses:						
Cost of publications ..	\$ 4,043	\$ 996	\$(143)(a)	\$ 4,896	\$ 4,896	\$ 4,896
Selling, general and administrative	3,168	1,067	(74)(a)	4,161	4,161	4,161
Reductions of reserves	(1,126)	—	—	(1,126)	(1,126)	(1,126)
Other (primarily interest (income) expense)	402	11	(449)(b)	(36)	9	76
	\$ 6,487	\$ 2,074	\$(666)	\$ 7,895	\$ 7,940	\$ 8,007
Loss before extra- ordinary items	\$(734)	\$(105)	\$ 449	\$(390)	\$(435)	\$(502)
Provision for cumulative unpaid dividends for Preferred Stock	(1,147)	—	1,147 (c)	—	—	—
(Loss) before extraordi- nary items applicable to Common Shares (Note f)	\$(1,881)	\$(105)	\$ 1,596	\$(390)	\$(435)	\$(502)
Per share of new common stock— Shares outstanding (Notes c and d)	2,398,518	—	—	2,398,518	2,335,001	2,239,725
(Loss) Per Share of New Common Stock before extraordinary items (Note f)	\$(78)	—	—	\$(16)	\$(19)	\$(22)

(a) Represents elimination of intercompany transactions as described in Note (9) of Notes to Financial Statements.

(b) To eliminate the interest expense on the 6% Subordinated Income Debentures, which reflects the exchange of the Debentures for the new common stock.

(c) The shares outstanding used in the pro forma earnings per share computation reflects—

(1) The exchange of the 6% Subordinated Income Debentures into the new common stock.

(2) The reclassification, change and conversion of all the Prior Preferred and old \$1 par common stock, into the new common stock.

(3) The issuance of new common stock in contemplation of the acquisition of Review by Curtis.

PRO FORMA COMBINED SUMMARY INCOME STATEMENT (Continued)
(unaudited)

345a

(4) The computation of the new shares is:

Average Unit Price	Shares or Principal Amount	Average Market Value	Exchange Ratio	Participation in New Common Stock Assuming Exchange of 6% Subordinated Debentures if the Following Principal Amounts Are Exchanged		
				100%	90%	75%
Debentures at \$20.50 per \$100	\$6,455,000	\$1,323,275	9.84	635,172	571,655	476,379
\$4.00 Dividend Preferred at \$3.21 per share	334,470	1,073,091	1.54	515,084	515,084	515,084
\$1.60 Dividend Preferred at \$1.94 per share	239,418	463,872	0.93	222,659	222,659	222,659
Common at \$1.04 per share	3,555,568	3,703,716	0.10	355,557	355,557	355,557
		<u>\$6,563,954</u>		<u>1,728,472</u>	<u>1,664,955</u>	<u>1,569,679</u>
Shares to be issued in acquisition of Review				670,046	670,046	670,046
Total				<u>2,398,518</u>	<u>2,335,001</u>	<u>2,239,725</u>

- (d) Eliminations were not made of the revenues and related expenses attributable to the real properties not utilized in Review's business, since the amounts involved are insignificant.
- (e) To eliminate preferred stock dividends.
- (f) Does not include the extraordinary income of Curtis of \$3,144,000. In addition, does not include a pro forma adjustment of \$465,000 to extraordinary items to charge off the recorded goodwill (excess of stated value over net book value (deficit)) acquired in the acquisition of Review which will be accounted for as a purchase for accounting purposes.

THE CURTIS PUBLISHING COMPANY & SUBSIDIARIES
REVIEW PUBLISHING CO., INC. AND SUBSIDIARY
PRO FORMA CONDENSED COMBINED BALANCE SHEET

346a

(Unaudited)
 March 31, 1972

	The Curtis Publishing Company and Subsidiaries	Pro Forma Adjustments	Pro Forma Balance	Review Publishing Co., Inc. and Subsidiary	Pro Forma Adjust- ments	Pro Forma Combined Assuming Exchange of 6% Subordinated Debentures if the Following Principal Amounts are Exchanged		
						100%	90%	75%
	(in thousands of dollars)							
ASSETS								
Current assets	\$ 2,796	—	\$2,796	\$373	\$ (35)(1)	\$3,134	\$3,134	\$3,134
Notes and accounts receivable, non-current	—	—	—	69	—	69	69	69
Property, plant and equipment, net	89	—	89	112	—	201	201	201
Other	.50	—	50	116	465 (5) (465)(6)	166	166	166
Total assets	<u>\$ 2,935</u>	<u>\$ —</u>	<u>\$2,935</u>	<u>\$670</u>	<u>\$ (35)</u>	<u>\$3,570</u>	<u>\$3,570</u>	<u>\$3,570</u>
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)								
Current liabilities	\$ 2,646	\$ 90 (2) 250 (3)	\$2,986	\$418	\$ (35)(1)	3,369	\$3,369	\$3,369
6% Subordinated Income Debentures due 1986 (less \$3,120,000 face value of debentures in treasury) including accrued interest	9,955	(1,354)(2) (8,601)(4)	—	—	—	—	860	2,150
Long-term debt and other liabilities	472	—	472	85	—	557	557	557
Subscriptions paid in advance, net	2,993	—	2,993	565	—	3,558	3,558	3,558
Shareholders' equity (deficit):								
Capital stock—Prior Preferred, no par value—								
\$4 Dividend series	16,724	(16,724)(4)	—	—	—	—	—	—
\$1.60 Dividend series	2,394	(2,394)(4)	—	—	—	—	—	—
Common stock (old), par value \$1 per share	3,555	(3,555)(4)	—	—	—	—	—	—
Common stock, par value \$10 per share	—	—	—	1	(1)(5)	—	—	—
Common stock (new), stated value \$1.10 per share, Note (d)	—	173 (4) 1,264 (2) (250)(3)	173	—	67 (5)	240	234	224
Capital surplus	983	31,101 (4) (33,098)(7)	—	18	(18)(5)	—	—	—
Deficit	(36,787)	33,098 (7)	(3,689)	(417)	417 (5) (465)(6)	(4,154)	(5,008)	(6,288)
Total liabilities and shareholders' equity	<u>\$ 2,935</u>	<u>\$ —</u>	<u>\$2,935</u>	<u>\$670</u>	<u>\$ (35)</u>	<u>\$3,570</u>	<u>\$3,570</u>	<u>\$3,570</u>

See Notes to Pro Forma Condensed Combined Balance Sheet

NOTES TO PRO FORMA CONDENSED COMBINED BALANCE SHEET
(Unaudited)

347a

- (a) The condensed pro forma combined balance sheet should be read in conjunction with the consolidated financial statements of the respective companies and the notes thereto included elsewhere in this Prospectus.
- (b) The pro forma reflects the recapitalization outlined in this Prospectus as if the transactions were consummated at March 31, 1972, notwithstanding the fact that these transactions are expected to be consummated at a later date.
- (c) The pro forma adjustments give effect to the following:
- (1) To eliminate intercompany receivables.
 - (2) To reflect the Company's exercise of its option to purchase \$1,030,000 of its 6% Subordinated Income Debentures from Mr. Beurt R. SerVaas, President of Curtis and Review, at his cost of \$82,400, plus interest from the respective dates on which he purchased the debentures.
 - (3) To provide for expenses incidental to the plan of recapitalization and acquisition.
 - (4) To reflect the exchange of the 6% Subordinated Income Debentures, including accrued interest, into the new common stock.

To reflect the reclassification, change and conversion of all the Prior Preferred and old \$1 par common stock, into the new common stock, with a stated value of \$.10 per share (1,728,471 shares).
 - (5) To reflect the issuance of 670,046 shares of the new common stock (recorded at the stated value of \$.10 per share as approved by the Curtis Board of Directors) in contemplation of the acquisition of Review by Curtis which will be accounted for as a purchase for accounting purposes.
 - (6) To charge the recorded goodwill (excess of stated value over net book value (deficit)) acquired in the acquisition of Review.
 - (7) To reflect, that as part of the recapitalization, the Board of Directors, as permitted under applicable State law and subject to shareholders' approval, has applied all of the unrestricted capital surplus available to the reduction of the deficit.
- (d) Shares of New Common Stock outstanding assuming exchange of the 6% Subordinated Income Debentures if the following principal amounts are exchanged:

<u>% Exchanged</u>	<u>Shares</u>
100%	2,398,518
90%	2,335,001
75%	2,239,725

- (e) In the event the plan of recapitalization is adopted, and in the event that the Company derives benefits from the utilization of the operating loss carryforwards discussed in Note (3)(c)3, these benefits will be applied first to capital surplus.

PROJECTED CHANGES IN CASH (UNAUDITED)

348a

The following table shows the projected changes in cash during each of the four fiscal quarters ending March 31, 1973, for the Company and subsidiary consolidated, for Review and subsidiary consolidated and combined giving effect to the recapitalization. The projections for the three months ended June 30, 1972, were prepared in the first quarter of 1972 and represented the best estimate of management in the light of circumstances and information available at that time. The actual results for that period are not yet available, but see Footnote (1) for information concerning the estimated results. The projections for the three months ended September 30, 1972, December 31, 1972, and March 31, 1973, represent the best estimate of management in the light of present circumstances and available information. All of the projections are based on many assumptions.

	Three months ended June 30, 1972			Three months ended September 30, 1972		
	Curtis	Review	Combined	Curtis	Review	Combined
Cash, beginning of quarter	\$ 864,000	\$ 62,000	\$ 926,000	\$ 493,000	\$ 37,000	\$ 530,000
Operations:						
Income —						
Advertising	438,000	81,000	519,000	256,000	86,000	342,000
Subscriptions	525,000	266,000	891,000	525,000	356,000	881,000
Newsstand	320,000	19,000	339,000	221,000	9,000	230,000
Royalties and other	61,000	121,000	182,000	79,000	137,000	216,000
	<u>\$1,444,000</u>	<u>\$487,000</u>	<u>\$1,931,000</u>	<u>\$1,081,000</u>	<u>\$588,000</u>	<u>\$1,669,000</u>
Disbursements —						
Cost of publications ...	\$1,160,000	\$297,000	\$1,457,000	\$ 848,000	\$331,000	\$1,179,000
Selling, administration and other	419,000	202,000	621,000	524,000	238,000	762,000
	<u>\$1,579,000</u>	<u>\$499,000</u>	<u>\$2,078,000</u>	<u>\$1,372,000</u>	<u>\$569,000</u>	<u>\$1,941,000</u>
Estimated cash available from (used in) operations	<u>\$ (135,000)</u>	<u>\$ (12,000)</u>	<u>\$ (147,000)</u>	<u>\$ (291,000)</u>	<u>\$ 19,000</u>	<u>\$ (272,000)</u>
Other—Increase (Decrease):						
Collection of old receivables and litigation recoveries	\$ 230,000	—	\$ 230,000	\$ 105,000(2)	—	\$ 105,000(2)
Pension excess refundable	60,000	—	60,000	—	—	—
Recapitalization	(40,000)	—	(40,000)	(80,000)	—	(80,000)
Payment for 6% Subordinated Income Debentures	—	—	—	—	—	—
Payments on overdue payables	(212,000)	—	(212,000)	(29,000)	—	(29,000)
Payments due on settlements	(70,000)	—	(70,000)	(25,000)	—	(25,000)
Loan and note repayments	(20,000)	(9,000)	(29,000)	(20,000)	(7,000)	(27,000)
	<u>\$ (52,000)</u>	<u>\$ (9,000)</u>	<u>\$ (61,000)</u>	<u>\$ (49,000)</u>	<u>\$ (7,000)</u>	<u>\$ (56,000)</u>
Cash, end of quarter	<u>\$ 677,000</u>	<u>\$ 41,000</u>	<u>\$ 718,000(1)</u>	<u>\$ 153,000</u>	<u>\$ 49,000</u>	<u>\$ 202,000</u>

(1) Based in part on preliminary information, the combined balances as of June 30, 1972, were approximately \$530,000. Of the \$188,000 reduction from the projected cash balance of \$718,000, \$118,000 is estimated to have resulted from less cash received because of delays in subscription billings as a result of conversion to in-house data processing. The remaining \$70,000 of the reduction is estimated to be due principally to fewer new subscriptions for Curtis magazines than had been projected.

tions and may be affected favorably or unfavorably by many factors, such as costs, revenues, results of litigation, wage levels, employee relations, taxes, postal rates, business controls and general economic conditions. Accordingly, there is no assurance that the projections will prove to be accurate. The periodic reports on Form 10-Q and Form 10-K which the Company will file with the Securities and Exchange Commission and the Philadelphia-Baltimore-Washington Stock Exchange will reflect in comparative columnar form the actual amounts and the projected amounts for the periods presented. The table should be read in conjunction with the consolidated financial statements of the respective companies and the notes thereto included elsewhere herein.

Three months ended December 31, 1972			Three months ended March 31, 1973		
Curtis	Review	Combined	Curtis	Review	Combined
\$ 153,000	\$ 49,000	\$ 202,000	\$ 247,000	\$ 114,000	\$ 361,000
421,000	88,000	509,000	412,000	80,000	492,000
620,000	517,000	1,137,000	495,000	288,000	783,000
417,000	19,000	436,000	387,000	21,000	404,000
92,000	113,000	205,000	86,000	99,000	185,000
<u>\$1,550,000</u>	<u>\$737,000</u>	<u>\$2,287,000</u>	<u>\$1,376,000</u>	<u>\$488,000</u>	<u>\$1,864,000</u>
 \$1,149,000	 \$363,000	 \$1,512,000	 \$ 748,000	 \$333,000	 \$1,081,000
528,000	204,000	732,000	521,000	200,000	721,000
<u>\$1,677,000</u>	<u>\$567,000</u>	<u>\$2,244,000</u>	<u>\$1,269,000</u>	<u>\$533,000</u>	<u>\$1,802,000</u>
<u>\$ (127,000)</u>	<u>\$170,000</u>	<u>\$ 43,000</u>	<u>\$ 107,000</u>	<u>\$ (45,000)</u>	<u>\$ 62,000</u>
\$ 535,000 (2)	\$ —	\$ 535,000 (2)	\$ —	\$ —	\$ —
(100,000)	—	(100,000)	—	—	—
(90,000)	—	(90,000)	—	—	—
(29,000)	—	(29,000)	(53,000)	—	(53,000)
(95,000)	—	(95,000)	—	—	—
—	(105,000)	(105,000)	—	(5,000)	(5,000)
<u>\$ 221,000</u>	<u>\$ (105,000)</u>	<u>\$ 116,000</u>	<u>\$ (53,000)</u>	<u>\$ (5,000)</u>	<u>\$ (58,000)</u>
<u>\$ 247,000</u>	<u>\$ 114,000</u>	<u>\$ 361,000</u>	<u>\$ 301,000</u>	<u>\$ 64,000</u>	<u>\$ 365,000</u>

- (2) Consists of the remaining balance (\$490,000) of the payments due from Penntech Papers, Inc. (see "Recent Developments—Disposition of Assets—Paper Mill") and settlement (\$150,000 net) of the principal portion of the action against Lin Broadcasting Corporation and others (see "Litigation—Holiday Publishing Company v. Frederic Gregg, Jr., Lin Broadcasting Corporation, Joel M. Thrope, Clyde W. Clifford, Peter J. Solomon, David Steine and Thomas I. Unterberg, U.S.D.C.S.D.N.Y., 69 Civ. 1808").

350a

This page left blank purposely.

BUSINESS PROPERTY AND LITIGATION
OF
CURTIS

351a

History

The Curtis Publishing Company was incorporated on December 28, 1921 under the laws of the Commonwealth of Pennsylvania. During recent years the Company has undergone several changes in management and has disposed of major business properties, including several magazines, circulation subsidiaries, and printing and paper making facilities. See "Recent Developments."

Its recent efforts have been directed toward reducing outstanding liabilities, marshalling its remaining assets, reducing publishing expense to the minimum and seeking beneficial business combinations. Despite these efforts, the Company continues to operate at a loss and the proposed acquisition of Review Publishing Co., Inc. is the sole business combination which has been agreed upon. See "The Plan of Recapitalization and Acquisition" and "Recent Developments".

The magazine publishing industry has been and is experiencing perhaps the most critical period of its existence, witnessed by the discontinuance of several major periodicals, including the Company's own traditional THE SATURDAY EVENING POST, due primarily to technological advances in other informational and editorial media, companion changes in public reading habits, and the concomitant reduction of advertising placed in magazines, resulting in substantial losses of advertising revenue.

Management seeks to decrease dependence upon advertising revenues by increasing revenues from the sale of magazines while attempting to reduce production costs. There can be no assurance that this policy will succeed or that overall profitability can be regained.

Business

The Company's present business, conducted through its wholly owned subsidiary, The Saturday Evening Post Company, consists of the continued publication of HOLIDAY magazine and JACK AND JILL magazine. In addition, in 1971 the Company commenced the publication of a new THE SATURDAY EVENING POST magazine on a quarterly basis.

HOLIDAY is devoted primarily to the fields of travel and leisure while JACK AND JILL is a children's magazine. Eight issues of HOLIDAY were published in 1971 and six issues are planned for 1972. In 1971, twelve issues of JACK AND JILL were published, with ten being planned for 1972. The principal reason for reducing the frequency of publication was to reduce production expenses. The initial issue of the new quarterly publication THE SATURDAY EVENING POST went on sale June 1971, with two additional issues following in that year. The Summer 1972 issue was published in June 1972.

The editing of the three magazines is done in Indianapolis, Indiana in leased offices located at 1100 Waterway Boulevard where Review Publishing Co., Inc. maintains its principal place of business. See "Certain Transactions". Most of the editorial and art material for the magazines is purchased from outside authors, illustrators and photographers. A small amount is created by Company or Review personnel. Some of the new THE SATURDAY EVENING POST material is reprinted from the former magazine of the same name. Advertising sales for each of the three magazines are conducted through several regional sales offices. Printing of the magazines is done by outside commercial printing firms some of which have required the Company to make advance deposits as security for the printing cost of each magazine issue.

The net revenues, costs and expenses (before expenses such as general and administrative, corporate, and interest, not directly allocable to the operations of these magazines) and income (loss) from operations of HOLIDAY magazine and JACK AND JILL magazine for each of the five years ended December 31, 1971 and the three months ended March 31, 1972, and of the new quarterly publication, THE SATURDAY EVENING POST magazine, for the year ended December 31, 1971 and the three months ended March 31, 1972, were as follows:

	Three Months Ended March 31,				Years Ended December 31 (Unaudited)							
	1972		1971		1970		1969		1968		1967	
	(In thousands of dollars)											
	<u>%</u>		<u>%</u>		<u>%</u>		<u>%</u>		<u>%</u>		<u>%</u>	
HOLIDAY MAGAZINE												
Net Revenues	\$663	100	\$ 2,879	100	\$ 5,000	100	\$ 7,326	100	\$ 6,724	100	\$ 8,927	100
Costs and Expenses	672	101	3,887	135	6,950	139	9,091	124	8,455	126	10,419	117
Income (Loss) from Operations	<u>(\$ 9)</u>	<u>(1)</u>	<u>\$(1,008)</u>	<u>(35)</u>	<u>\$(1,950)</u>	<u>(39)</u>	<u>\$(1,765)</u>	<u>(24)</u>	<u>\$(1,731)</u>	<u>(26)</u>	<u>\$(1,492)</u>	<u>(17)</u>
JACK AND JILL MAGAZINE												
Net Revenues	\$424	100	\$ 1,498	100	\$ 1,700	100	\$ 2,119	100	\$ 2,171	100	\$ 2,207	100
Costs and Expenses	380	90	1,223	82	1,450	85	1,864	88	1,915	88	2,200	100
Income from Operations	<u>\$ 44</u>	<u>10</u>	<u>\$ 275</u>	<u>18</u>	<u>\$ 250</u>	<u>15</u>	<u>\$ 255</u>	<u>12</u>	<u>\$ 256</u>	<u>12</u>	<u>\$ 7</u>	<u>—</u>
THE SATURDAY EVENING POST MAGAZINE												
Net Revenues	\$559	100	\$ 1,336	100								
Costs and Expenses	557	100	1,791*	134								
Income (Loss) from Operations	<u>\$ 2</u>	<u>—</u>	<u>\$ (455)</u>	<u>(34)</u>								

* Including start-up expenses of \$250,000.

The Company sells subscriptions to HOLIDAY and JACK AND JILL through direct mail solicitation and through inserts in its three magazines. It also obtains subscriptions for HOLIDAY and JACK AND JILL through independent catalog agencies, which solicit institutional subscribers such as schools, libraries, hospitals and fraternal organizations, and through independent field agencies which make solicitations of individuals and others by telephone and in person. New subscriptions are largely on a lump sum payment basis, as paid-during-service or "PDS" subscription solicitation has for the most part been discontinued which is consistent with the current policies of other magazine publishers. This discontinuance is reflected in reduced subscription sales in 1972. The subscription rate for other than direct mail solicitation by the Company, varies from 100% to 50% of the basic subscription rate and the remittance rate to the Company by the subscription solicitation agencies varies from 50% to 70% in the case of catalog agencies to 15% to 32% for field solicitation agencies. The Company also sells HOLIDAY and JACK AND JILL to distributors for single copy (newsstand) sales. Initially, the new quarterly magazine THE SATURDAY EVENING POST was sold on a single copy (newsstand) basis only. In the latter part of 1971, solicitations for subscriptions to the new quarterly THE SATURDAY EVENING POST were initiated through direct mail and inserts in the Company's three magazines.

The following table shows with respect to HOLIDAY and JACK AND JILL for the years 1967 through 1971 and the first quarter of 1972 the number of issues each year, average paid circulation (subscription and single copy) per issue, average per issue advertising pages, average per page net advertising revenue (net of advertising expense, principally salaries and commissions of salesman and advertising representatives and exclusive of general administrative expenses) and average per issue net advertising revenue. 353a

	Year	Number of Issues	Subscription Sale(a)	Single Copy Sale(a)	Total	Average Advertising Pages Per Issue	Average Net Advertising Revenue Per Page	Average Net Advertising Revenue Per Issue
Holiday	1967	12	1,024,690	50,320	1,075,010	67	\$8,610	\$576,917
	1968	12	1,092,915	39,482	1,132,397	58	8,993	521,583
	1969	12	1,089,345	39,373	1,127,718	46	9,386	431,750
	1970	9	1,075,787	43,140	1,118,927	43	9,362	402,560
	1971	8	1,036,016	44,837	1,080,853	35	5,559(b)	194,561
	1972(d)	2	850,000	37,450	887,450	48	4,375(b)	210,000
Jack And Jill	1967	13	506,167	198,530	704,697			
	1968	13	459,327	180,737	640,064		(c)	
	1969	14	454,487	170,554	625,041			
	1970	13	383,211	162,795	546,006			
	1971	12	436,550	192,888	629,438			
	1972(d)	3	397,382	265,000	662,382			
The Saturday Evening Post	1971	3	30,000(e)	505,000	535,000(e)	34	4,456	151,510
	1972(d)	1	100,500	530,000	630,500	40	3,550	142,000

- (a) All subscription and advertising figures are on an average issue basis, except as noted in Note e.
 (b) Due to the reduction in page size and circulation guarantee beginning with the December '70/January '71 issue, the per page rate was lowered approximately 10%.
 (c) Advertising pages and revenue with respect to JACK AND JILL are not significant.
 (d) Through March 31, 1972, reflecting a decrease due principally to discontinuance of "PDS" subscriptions.
 (e) The subscription figure with respect to THE SATURDAY EVENING POST for 1971 is on an average issue basis for the second and third issues of said magazine only, as there were no subscription sales of the first issue.

Employees

The Company and its subsidiary have approximately 102 employees of which 93 are in Indianapolis, one is at the Company's corporate headquarters office in Philadelphia, and eight are at regional advertising sales offices. Of the employees in Indianapolis, approximately 20 are in the art and editorial department, 11 are in general magazine production, 29 are in circulation and 33 perform accounting, secretarial and other administrative services. In addition, approximately seven part-time employees are utilized at Indianapolis, principally in the circulation department.

Services Provided by Review

The Company receives management services in connection with the publication of its magazines from Review Publishing Co., Inc. pursuant to an agreement dated October 13, 1970 for an annual fee of \$50,000. Pursuant to an agreement with Review dated February 11, 1971, the Company also receives from Review certain additional services and is provided with certain facilities at the 1100 Waterway Boulevard, Indianapolis premises. The services include accounting, typesetting, art, subscription fulfillment and personnel recruitment. In addition to the space occupied by the Company's personnel in Indianapolis, Review furnishes the Company with mailing, copying and telephone facilities. The Company is charged for these services and facilities in accordance with the amount of services and facilities utilized, which in 1971 amounted to approximately \$273,000. See "Certain Transactions". In addition to the subscription fulfillment services furnished to it by Review in 1971, other subscription fulfillment services were provided to the Company by an independent firm at an annual cost of approximately \$350,000 in 1971.

Postage

354a

Postage, primarily in connection with subscription sales and magazine deliveries, is a substantial expense to the Company. In 1971 postage amounted to approximately \$250,000. Postage rates have risen steadily and substantially in recent years. There was a postage increase in 1971 and proposed further increases are expected in the near future.

Other Income

The Company from time to time grants licenses or permissions to other parties for the use of editorial and art material previously published in its magazines and has certain other royalty rights. Fees and royalties from these sources in 1971 amounted to approximately \$200,000. The Company also rents its subscription lists for which in 1971 it received approximately \$144,000 before commission expense.

Competition

The magazine industry has become extremely competitive and in recent years a number of established magazines have ceased publication. The principal areas of magazine competition are advertising sales, subscription sales, newsstand sales and general readership interest. HOLIDAY, JACK AND JILL and the new quarterly THE SATURDAY EVENING POST compete directly with other magazines in the same fields which are, respectively, travel and leisure, children in the 12 and under age group and general interest. Each competes in varying degrees with television, radio and books. The SATURDAY EVENING POST and HOLIDAY, and to a limited extent JACK AND JILL, compete for advertising sales with other magazines and other advertising media. The Company is a small business in the publishing field.

Property

The Company does not own any significant real estate. See "Recent Developments—Disposition of Assets". It has certain lease obligations which include its corporate headquarters office in The Fidelity Building, Philadelphia, Pennsylvania at a rental of \$5,760 per year for a term expiring February 28, 1974, which is subject to prior termination upon 90 days notice, see "Certain Transactions"; storage space in the Curtis Building in Philadelphia on a month to month basis at an annual rental of \$3,360; and an advertising sales office in the Waldorf Astoria Hotel, New York City at an annual rental of \$40,000 for a term expiring December 31, 1972. In addition, it occupies approximately 13,000 square feet of space at 1100 Waterway Boulevard, Indianapolis used for the publication of its three magazines for which it pays an affiliate of Review Publishing Co., Inc. under an agreement dated February 11, 1971 at a specified rate per square foot as occupied for which it paid \$55,000 in 1971. It also leases office space in Chicago, Illinois at an annual rental of \$19,000 under a long term lease expiring in 1982. Part of this space has been subleased at a rate of \$9,000 per year under an agreement which expires December 31, 1972.

The Company, under a royalty agreement dated December 14, 1965 with a former subsidiary, which was sold to Texas Gulf Sulphur Company that year, has the right to receive certain royalties at such time as minerals are produced from a certain tract near Timmins, Ontario, Canada, which tracts remain undeveloped and as to which there is no present accurate basis for valuation. Texas Gulf Sulphur Company has indicated that it will not undertake development of the tracts until the royalty agreement is renegotiated so as to reduce the Company's royalty interest.

Litigation

There follows a description of the material litigation involving the Company. In the opinion of the management, this litigation, if decided adversely to the Company, could have a material adverse effect upon the financial condition of the Company.

John M. Crimmins and Catherine L. Crimmins, his wife, on Behalf of Themselves and on Behalf of Those Similarly Situated v. The Curtis Publishing Company, Municipal Court of Philadelphia County, Common-

wealth of Pennsylvania. This matter is an action, purportedly on behalf of all the former subscribers to THE SATURDAY EVENING POST, seeking to compel the defendant to grant cash refunds to members of the class. Although the plaintiffs claim damages "over \$1,000,000", the Court of Common Pleas of Philadelphia County transferred this action to the Municipal Court of Philadelphia County, which has a maximum jurisdiction of \$500. This action was filed on or about September 26, 1968.

Philip P. Kalodner, in His Own Right and on Behalf of the Holders of the Prior Preferred Stock of The Curtis Publishing Company v. The Curtis Publishing Company, Martin S. Ackerman and E. Eugene Mason, Court of Common Pleas of Philadelphia County, June Term, 1967 No. 3432. In this matter, the plaintiff seeks an order declaring the right of the holders of the Prior Preferred Stock to earned contingent dividends of \$1.00 per share for the year 1965 and \$.60 per share for the year 1966. The action was filed on or about July 19, 1967, and the plaintiff has taken no action subsequent to the filing of an amended complaint in 1969.

Frank M. Tait v. The Curtis Publishing Company, Supreme Court of the State of New York, County of New York, Index No. 17066/1967. In this action plaintiff requests judgment: (1) declaring that as at December 31, 1965, the registrant was in arrears in the payment of cumulative dividends on its Prior Preferred Stock, \$4.00 Dividend Series in the sum of \$12.25 per share; (2) declaring that as at December 31, 1965, the registrant was in arrears in the payment of cumulative dividends on its Prior Preferred Stock, \$1.60 Dividend Series in the sum of \$3.25 per share; and (3) declaring that the registrant has no power or authority to refund its indebtedness without the prior consent of the holders of two-thirds of the outstanding Prior Preferred Stock of the registrant. The plaintiff subsequently filed a motion for summary judgment, requesting the entry of a money judgment against defendant. The plaintiff contends that the right to payment of dividends becomes vested and would not be extinguished by any recapitalization of the Company. The motion for summary judgment was subsequently withdrawn, and the registrant has filed an answer denying the allegations of the complaint. The complaint was filed on or about April 29, 1966.

Hurley v. The Curtis Publishing Company, U.S.D.C.E.D.Pa., Civil Action No. 72-274. This matter is a claim, alleged to be in excess of \$450,000, for breach of certain contracts entered into between the Company and the plaintiff. By agreement dated February 1, 1967, the Company appointed the plaintiff as exclusive advertising sales representative for THE SATURDAY EVENING POST, LADIES HOME JOURNAL, HOLIDAY, JACK & JILL and AMERICAN HOME for the geographical territory set forth in the agreement. By a separate agreement, also dated February 1, 1967, the Company leased an airplane from plaintiff. The Company has subsequently subleased said airplane to KWTX Broadcasting Company, and plaintiff has alleged that he did not consent to the sublease. The complaint was filed on or about February 7, 1972. On or about July 25, 1972, plaintiff amended his complaint, seeking a declaration that he is not required to transfer the airplane and the \$65,000 security deposit to the Company.

Atwood Richards, Inc. v. The Curtis Publishing Company, U.S.D.C.S.D.N.Y., 71 Civ. 5462. This action is predicated upon a series of purported contracts between Atwood Richards, Inc. and The Curtis Publishing Company wherein, inter alia, The Curtis Publishing Company agreed to compensate the plaintiff for certain advertising appearing in THE SATURDAY EVENING POST, HOLIDAY, LADIES HOME JOURNAL, and JACK & JILL. The complaint requests a money judgment in the amount of \$123,000 and also requests an accounting from the defendant. The complaint was filed on or about December 16, 1971. Discovery proceedings by the defendant are now in progress.

John M. Clifford v. The Curtis Publishing Company, U.S.D.C.E.D.Pa., Civil Action No. 71-1794. This action is a claim upon a series of employment agreements between Clifford and The Curtis Publishing Company. The complaint requests a money judgment of approximately \$1,200,000. The complaint further alleges, in computing said damages, that the Company is liable to Clifford, not only for the compensation required to be paid under the contracts, but also for the income tax consequences of receiving such compensation in a lump-sum judgment, as distinguished from receiving said compensation in the periodic payments envisioned by the contract. The complaint was filed on or about April 2, 1971. The deposition of Mr. Clifford has been taken and this action has been consolidated with the Hurley case referred to above.

Holiday Publishing Company v. Frederic Gregg, Jr., Lin Broadcasting Corporation, Joel M. Thrope, Clyde W. Clifford, Peter J. Solomon, David Steine and Thomas I. Unterberg, U.S.D.C.S.D.N.Y., 69 Civ.

1808. In this matter, the subsidiary of the Company has demanded rescission of the purchase, for \$3.5^{356a} million, by The Saturday Evening Post Company, of approximately 80,000 shares of Lin Broadcasting Corporation stock from Frederic Gregg, Jr. in January of 1969. Defendant Gregg has filed a counter-claim requesting judgment requiring the plaintiff to indemnify him against all claims made in certain class actions against Gregg. The complaint was filed on or about April 30, 1969. Extensive depositions have been taken. The Company is in the process of effecting a settlement with all defendants except defendant Gregg.

Robert Bader, et al. v. The Curtis Publishing Company, Cadence Industries Corporation, The Saturday Evening Post Company and Martin Ackerman, Circuit Court, 11th Judicial District of Dade County, Florida, No. 17-16894. This action is a class action on behalf of former subscribers to THE SATURDAY EVENING POST seeking to compel the defendants to make cash refunds to said former subscribers. The Court has made a primary determination that the action is maintainable as a class action with the class limited to those former subscribers whose subscription rights arose in the State of Florida. The complaint was filed on or about September 2, 1971. The Company has appealed from the determination that the action is maintainable as a class action and the matter has been argued in the appellate courts.

International Business Machines Corporation v. The Curtis Publishing Company, Court of Common Pleas of Philadelphia County, February Term, 1972, No. 1361. This matter is a claim, by International Business Machines Corporation, upon certain notes purported to have been executed by the Company in favor of International Business Machines Corporation and upon certain invoices allegedly submitted by IBM to the Company. The total amount of the claim is \$190,105.27, with interest. The Complaint was filed on or about February 14, 1972. The plaintiff has filed a pleading challenging the legal sufficiency of certain of the defenses pleaded in the answer. This question is awaiting determination by the Court.

The Travellers Insurance Company, Inc. v. The Curtis Publishing Company, U.S.D.C.S.D. Ind., No. IP-72-C-312. The Complaint in this suit, which was filed June 29, 1972, alleges that the plaintiff, during the period 1963-1966, issued certain insurance policies to the Company and that said policies contained provisions requiring the recomputation of premiums in light of actual claims experience. The Complaint demands judgment in the amount of \$48,355, together with interest from September 1, 1966, alleging that the Company is so obligated to the plaintiff because of said provisions in the policies. The Company is investigating this claim and presently is unable to express an opinion as to the probable outcome of the litigation.

REVIEW PUBLISHING CO., INC. — BUSINESS AND MANAGEMENT

357a

Business and History

Review Publishing Co., Inc. was incorporated December 28, 1955 under the laws of the State of Indiana. It is principally engaged in the publication of children's magazines and trade and special interest periodicals principally for national distribution. The executive and editorial offices are located at 1100 Waterway Boulevard, Indianapolis, Indiana.

All of the outstanding shares of capital stock of Review were acquired by Beurt R. SerVaas on October 15, 1957 and subsequently transferred to SerVaas, Inc. (a holding company) the present sole shareholder of Review. Mr. SerVaas owns all of the outstanding capital stock of SerVaas, Inc.

At the time it was acquired, Review published one special interest magazine, TRAP & FIELD. Subsequently, it created one trade magazine, PLYWOOD AND PANEL, before commencing an acquisition program which resulted in the obtaining of rights or licenses to publish five children's magazines and four additional trade and special interest magazines. Review has followed a policy of growth through the acquisition of unprofitable or failing publications. Generally, such acquisitions have involved, in addition to the purchase price, the assumption of the unfulfilled subscription obligations of the predecessor publisher.

The principal sources of revenue are subscriptions and advertising. However, the significance of each of these sources varies for each periodical published. Recently, significant revenues also have been obtained from the sale of mailing lists for the children's publications to approved advertisers and for special promotions. Revenues and contributions to pre-tax income for the last four fiscal years and the five month period are shown in the table below.

	FISCAL YEAR ENDED JULY 31,				Eight Months Ended March 31, 1972
	1968	1969	1970	1971	
Revenues:					
Children's Magazines:					
Subscriptions received	\$312,400	\$ 485,800	\$ 734,800	\$ 883,200	\$ 669,700
Commercial and other advertising	12,400	12,600	13,700	18,000	20,600
List rental, special promotion and other	18,000	13,700	45,700	123,000	109,300
	<u>\$342,800</u>	<u>\$ 512,100</u>	<u>\$ 794,200</u>	<u>\$1,024,200</u>	<u>\$ 799,600</u>
Trade and Special Interest Magazines:					
Subscriptions received	\$221,600	\$ 236,600	\$ 236,000	\$ 238,600	\$ 189,200
Commercial and other advertising	220,900	269,000	302,300	294,100	206,500
List rental, special promotion and other	21,800	32,400	24,700	23,100	19,500
	<u>\$464,300</u>	<u>\$ 538,000</u>	<u>\$ 563,000</u>	<u>\$ 555,800</u>	<u>\$ 415,200</u>
Other	71,200	108,400	110,900	215,600	173,900
	<u>\$878,300</u>	<u>\$1,158,500</u>	<u>\$1,468,100</u>	<u>\$1,795,600</u>	<u>\$1,388,700</u>
Discontinued Magazine:	—0—	—0—	87,900	66,100	800
	<u>\$878,300</u>	<u>\$1,158,500</u>	<u>\$1,556,000</u>	<u>\$1,861,700</u>	<u>\$1,389,500</u>
Pretax Earnings (Loss):					
Children's Magazines:	\$(71,200)	\$ (30,200)	\$ 37,200	\$ 4,400	\$ (52,900)
Trade and Special Interest Magazines	30,400	25,000	36,800	16,700	9,300
Other	(46,400)	(63,900)	(72,900)	400	(9,300)
	<u>\$(87,200)</u>	<u>\$ (69,100)</u>	<u>\$ 1,100</u>	<u>\$ 21,500</u>	<u>\$ (52,900)</u>
Discontinued Magazine	—0—	—0—	(52,300)	(29,200)	(8,400)
Pre-tax earnings (loss)	<u>\$(87,200)</u>	<u>\$ (69,100)</u>	<u>\$ (51,200)</u>	<u>\$ (7,700)</u>	<u>\$ (61,300)</u>

The children's magazines published by Review are: **BARBIE TALK**, **BROWNIE READER**, **CHILD LIFE**, **CHILDREN'S PLAYMATE** and **YOUNG WORLD**. These magazines are directed to the age group 3 through 14. A substantial amount of the creative effort of these magazines is generated by the staff of Review; however, much art and editorial material is also purchased from freelance artists and writers. These magazines are sold through direct mail, catalogs, school purchase plans, field selling and newsstand sales. Substantially all of the revenues from the children's magazines are from subscriptions. The following is a brief description of each of the children's magazines:

BARBIE TALK is published under license from the Mattel Corporation pursuant to an agreement dated January 28, 1972. Commencing with the April 1972 issue, **BARBIE TALK** will be published ten times a year with bi-monthly issues in June/July and December/January. Although this publication is primarily Barbie doll oriented, it also ; many other features for girls from 4 to 14. Editorial content includes Barbie stories, plays, recipes, games, puzzles and articles on subjects of general interest. The Mattel Licensing Agreement calls for payment to Mattel of 2% of the gross subscription income from this magazine with the exception of income from subscriptions generated by Mattel. However, if the number of subscriptions that are generated by Mattel falls below 50,000, or 10% of the total number of outstanding subscriptions, the royalty to Mattel is 4% instead of 2%.

THE BROWNIE READER is a publication which was created by Review for Girl Scouts of the U.S.A. in 1967. Commencing in 1972, it will be published nine times each year, including one large summer issue encompassing the months of June through September. Editorial content is chosen or written by the Review staff in close cooperation with Girl Scouts of the U.S.A. and is directed to Brownies aged 7-8. This magazine is published pursuant to an agreement with the national organization of Girl Scouts. The agreement, which extends to July 31, 1973 with an option to extend for an additional five years, provides for a sharing of any profits from the publication of the magazine after the recovery of startup costs with the Girl Scouts of the U.S.A. To date no payments have been required under this agreement.

CHILD LIFE is directed to children aged 5-12 and is intended to be entertaining and instructive outside areas usually associated with classroom instruction. The editorial format is complemented by photography and illustrated art work. Publication is monthly except for the June/July and August/September issues which are bi-monthly.

CHILDREN'S PLAYMATE is designed for pre-schoolers and early readers in the 3 to 8-year-old range. Its content is balanced between entertainment, information, and things to do. Publication is monthly except for the June/July and August/September issues which are bi-monthly.

YOUNG WORLD, for ages 8 to 13, seeks to open new interests for the inquisitive young. Its content is chosen for the more mature child in this age group. Publication is monthly except for the June/July and August/September issues which are bi-monthly.

The trade and special interest magazines published by Review are: **DESIGN**, **INDIANA**, **NUGGETS**, **PLYWOOD & PANEL**, **STONE** and **TRAP & FIELD**. Most of the material for these magazines is generated by the staff of Review. The following is a brief description of each of the trade and special interest magazines:

DESIGN is a magazine of creative art for teachers, artists and craftsmen which is published bi-monthly. It is essentially an "idea" journal including articles which are instructional in format. Substantially all its revenues are from subscriptions.

INDIANA is a monthly special interest, business-oriented publication edited for business and industry executives and community leaders. It provides reports on business and industrial developments and on important business issues confronting the Indiana businessman. This magazine is distributed principally without charge. Substantially all of its revenues are from advertising.

NUGGETS, also printed under the names OPTIMETER and PRISM, is a pocket sized monthly periodical sold in bulk to business firms, principally funeral homes. It is redistributed by the purchasers for promotional purposes. Annually at Christmas a group of articles from NUGGETS is published under the name SCRAPBOOK for distribution by such businesses. Substantially all of its revenues are from bulk subscription sales.

PLYWOOD & PANEL is a monthly trade journal for the plywood manufacturing industry. Its editorial content is produced principally by the staff of Review. The principal source of revenue from this magazine, which is distributed principally without charge, is advertising.

STONE is a bi-monthly trade journal addressed principally to architects and distributed principally without charge. It features various uses of stone for construction, building and decor. Substantially all its revenues are from advertising.

TRAP & FIELD is the official publication of the Amateur Trapshooting Association. Its editorial material is produced by the staff of Review for the 13 issues each year. Revenues are from both advertising and subscriptions.

The following table shows the number of issues each year, the subscription copies, free distribution, and total circulation per issue, advertising pages per issue and advertising revenue per issue of each magazine from the year of its acquisition by Review through March 31, 1972.

	Calendar Year	Number of Issues	Subscription Copies(a)	Free Distribution(a)	Total	Advertising Pages Per Issue	Average Advertising Revenue Per Issue
<i>The Brownie Reader</i>	1968	12	57,938	4,720	62,658		
	1969	12	63,555	1,092	64,647		
	1970	12	76,556	271	76,827	(c)	(c)
	1971	12	83,452	55	83,507		
	1972(d)	3	79,395	212	79,607		
<i>Child Life</i>	1967	10	204,712	2,837	207,549		
	1968	10	195,211	2,670	197,881		
	1969	10	185,847	1,541	137,388		
	1970	10	190,511	1,393	191,904	(c)	(c)
	1971	10	182,142	1,399	183,541		
	1972(d)	3	151,320	3,539	154,859		
<i>Children's Playmate</i>	1968	10	69,595	—	69,595		
	1969	10	76,639	5	76,644		
	1970	10	149,746	47	149,793	(c)	(c)
	1971	10	221,431	484	284,403(b)		
	1972(d)	3	174,851	1,684	176,535(b)		
<i>Young World</i>	1970	10	185,819	930	186,749		
	1971	10	145,040	490	145,530	(c)	(c)
	1972(d)	3	109,503	1,266	110,769		
<i>Design</i>	1967	5	8,314	737	9,051		
	1968	5	9,509	140	9,649		
	1969	5	9,136	106	9,242		
	1970	5	9,476	122	9,598	(c)	(c)
	1971	6	8,840	132	8,972		
	1972(d)	1	7,020	212	7,232		
<i>Indiana</i>	1971	8	1,376	7,124	8,500	18	\$5,500
	1972(d)	3	2,079	5,632	7,713	17	5,483

	Calendar Year	Number of Issues	Subscription Copies(a)	Free Distribution(a)	Total	Advertising Pages Per Issue	Average Advertising Revenue Per Issue
<i>Nuggets</i>	1967	13	41,200	—	41,200	(c)	(c)
	1968	13	41,333	—	41,333		
	1969	13	41,350	—	41,350		
	1970	13	38,834	—	38,834		
	1971	13	31,356	—	31,356		
	1972(d)	3	28,109	—	28,109		
<i>Plywood and Panel</i>	1967	12	911	19,461	20,372	34	\$11,455
	1968	12	860	19,652	20,512	33	11,522
	1969	12	934	19,652	20,586	32	12,609
	1970	12	990	16,848	17,838	27	11,588
	1971	12	973	16,414	17,387	21	9,349
	1972(d)	3	960	17,448	18,408	20	9,810
<i>Stone</i>	1968	12	—	12,495	12,495	(c)	(c)
	1969	12	—	12,415	12,415		
	1970	12	—	11,381	11,381		
	1971	5	718	10,482	11,200		
	1972(d)	2	718	10,482	11,200		
<i>Trap and Field</i>	1967	13	11,380	437	11,817	21	5,095
	1968	13	12,408	450	12,858	22	6,005
	1969	13	13,483	396	13,879	25	6,502
	1970	13	14,747	263	15,010	27	8,144
	1971	13	15,430	425	15,855	29	7,891
	1972(d)	4	16,888	490	17,378	13	7,605

(a) All subscription figures are on an average issue basis.

(b) Includes 62,488 single copies sold on newsstands.

(c) Advertising with respect to the children's magazines, DESIGN magazine, NUGGETS magazine and STONE magazine was not significant.

(d) Through March 31, 1972.

In addition to the publishing of its own magazines, Review also publishes JACK AND JILL, HOLIDAY and the new quarterly THE SATURDAY EVENING POST for The Curtis Publishing Company pursuant to a Management Agreement. See "Services Provided by Review".

Review processes the majority of the subscriptions and mailing lists on a leased computer which is located at its offices. All of the magazines except HOLIDAY are currently mailed through in-house service. Most publications are now set and laid out internally by Review's art and production departments. Review does not print any of the magazines. It contracts with printers in several states for these services.

Employees

Review and its subsidiary have 79 employees all of whom are in Indianapolis, Indiana. Of the employees in Indianapolis, approximately 18 are in the art and editorial departments, approximately 5 are in general magazine production, approximately 20 are in circulation, approximately 4 are in advertising sales, and approximately 32 perform accounting, secretarial and other administrative services. In addition, there are approximately 13 part-time employees.

Review has no pension plans or life insurance programs, although it does participate with its employees in a health and hospital insurance plan available to all employees and their families.

Property

Review does not own any real property, having in March 1972 conveyed to SerVaas, Inc. the land and buildings reflected on the Consolidated Balance Sheet of Review at July 31, 1971 at \$51,044 (net of depreciation of \$44,335) together with mortgage and other debt related thereto of \$32,342, which real property was unrelated to and was not used in connection with the publishing business of Review. Its offices are located at 1100 Waterway Boulevard, Indianapolis, Indiana. The premises are leased from SerVaas Investment Corp., a real estate holding company wholly-owned by Mr. Beurt SerVaas, pursuant to a lease dated March 15, 1972. The lease rental, currently \$4.90 per square foot of office space leased, is based on a lease formula which prorates the cost of debt retirement, real estate taxes and insurance for the building among the tenants, all of which, except for the Company, are affiliates of SerVaas, Inc. In addition, charges for maintenance, utilities and janitorial services are prorated among said tenants. These offices are well kept and of recent construction. Review is currently leasing approximately 12,900 square feet of office space, and approximately 8,300 square feet (at \$1.50 per square foot) of warehouse space, of the 52,000 square feet owned by SerVaas Investment Corp. at that location. Substantially all of Review's operations are conducted from this location. The rent currently being paid by Review to SerVaas Investment Corp. amounts to approximately \$75,700 on an annual basis and compares to that which might be paid for comparable property which could be leased from unaffiliated parties.

Competition

The magazine publishing business is highly competitive in the areas of advertising sales, subscription sales, newsstand sales and general readership. All of the magazines published by Review are in direct competition with all other magazines of the same nature and are in general competition for readership with all reading materials sold on newsstands or by subscription. They are also in competition for reader attention with television, radio and books. Each magazine competes for advertising and circulation with all other magazines and all other advertising media. Review is approximately the same size as its largest competitors in the children's magazine field. It is small in relation to its competitors in the trade magazine field.

Management

The directors and executive officers of Review are:

Beurt R. SerVaas	President, Treasurer and Director
Betty Ann Foxworthy	Executive Vice President and Director
Mary Alice Simpson	Vice President and Assistant Treasurer
Raymond E. Gray	Vice President
Cory J. SerVaas	Secretary and Director

Beurt R. SerVaas, is Review's publisher and chief fiscal officer. He has directed the firm's development since 1957 when its first magazine was acquired. In the same year, Mr. SerVaas acquired North Vernon Forge, Inc. which presently manufactures original equipment components for automobile and appliance manufactures, including universal joints, engine and gear parts, and cam shafts. It also manufactures mechanics' handtools and recently acquired a truck body manufacturing facility. Mr. SerVaas is the owner and Chairman of the Board of North Vernon Forge, Inc. which for the year ended July 31, 1971 had sales in excess of \$3,600,000 and income, before income taxes, in excess of \$250,000. Mr. SerVaas is also Chairman of the Board of SerVaas Laboratories, Inc. which he and Mrs. SerVaas formed in 1952 to manufacture a patented plastic extruded device for the homemaker. That company's principal products now are household and commercial cleaning compounds, having annual sales of \$543,000 for the fiscal year ended September 30, 1971 and a net loss for such year of \$28,000.

Betty Ann Foxworthy is a graduate journalist and directs the Company's tradebook publications. She has been employed by the Company since 1956. Cory J. SerVaas is responsible for the publication of THE SATURDAY EVENING POST and HOLIDAY magazines. She is a graduate journalist and physician. Dr. SerVaas has been variously employed by Review since 1963. Mary Alice Simpson, CPA, has been a full time employee of Review since June 1, 1969. From June 1, 1967 to June 1, 1969, Miss Simpson was Assistant Controiler of Indiana Farmers Mutual Insurance Company. For more than one year prior thereto, Miss Simpson was employed with Harry A. Rider, CPA. Raymond E. Gray, a graduate journalist, directs Review's children's publications and has been employed by Review since November 1967. For more than three years prior thereto, Mr. Gray was News Editor of WISH-TV, Indianapolis, Indiana.

The following table sets forth the aggregate direct remuneration for the directors and the three highest-paid officers whose remuneration exceeded \$30,000 and for all directors and officers as a group:

<u>Name</u>	<u>Capacity in which Remuneration Was Received</u>	<u>Aggregate Direct Remuneration in Fiscal 1971</u>
Rita Ann Cooper	Executive Vice President	\$33,116
Directors and Officers as a Group (4 persons)		\$91,225

If the assets of Review are acquired by Curran it is expected that the salaries of the former directors and officers of Review as a group will continue at the same general level. Rita Ann Cooper ceased to be an active employee of Review in May 1972 and is not expected to return.

PRINCIPAL SHAREHOLDERS

363a

The following table sets forth the ownership of voting securities at May 1, 1972 by each person who owned of record or is known by the Company to own beneficially more than 10% of any class of the Company's voting securities and by all directors and officers as a group. Information is also presented as to the ownership of voting securities of the Company adjusted for shares to be issued in connection with the plan of recapitalization and acquisition.

Name and Address	Title of Class	Type of Ownership	As of March 1, 1972		Adjusted For Shares To Be Issued in Plan of Recapitalization and Acquisition	
			Number of Shares Owned	Percentage of Class	Number of Shares of Common Stock, no par value, to be Owned Beneficially	Percentage of Class
Beurt R. SerVaas 1100 Waterway Blvd. Indianapolis, Ind. 46202	\$1.60 Dividend Series Prior Preferred	Record and beneficially	28,348	11.8%	26,364*	1.1%
	Common Stock, \$1.00 par value	Record and beneficially	711,156	20.0%	71,116*	3.0%
SerVaas, Inc. 1100 Waterway Blvd. Indianapolis, Ind. 46202	Common Stock, \$1.00 par value	Record	—	—	670,046**	27.9%
Directors and Officers as a Group	\$4.00 Dividend Series Prior Preferred Stock	Record	100	0.03%	154*	0.006%
	\$1.60 Dividend Series Prior Preferred Stock	Record	28,348	11.8%	26,364*	1.1%
	Common Stock, \$1.00 par value	Record	711,666	20.0%	71,167*	3.0%

* The Shares of Common Stock, \$1.00 par value, and \$1.60 Dividend Series Prior Preferred Stock owned by Mr. SerVaas, together represent approximately 18% of the outstanding voting securities of the Company. Upon the effectiveness of the plan of recapitalization and acquisition, Mr. SerVaas will own directly or indirectly an aggregate of 767,526 shares of Common Stock, no par value, which will represent approximately 32% of the outstanding voting securities of the Company, assuming 100% acceptance of the exchange offer. See "Plan of Recapitalization and Acquisition". Mr. SerVaas, presently and upon the effectiveness of the plan of recapitalization and acquisition, may be deemed to be a "parent" of the Company, as such term is defined in Rule 405 promulgated under the Securities Act of 1933.

**The shares owned of record by SerVaas, Inc. are owned beneficially by Mr. SerVaas.

DESCRIPTION OF CAPITAL STOCK

The following sets forth a summary of the provisions of the proposed Amended and Restated Articles of Incorporation summaries of certain provisions contained in the Articles of Incorporation, as presently in effect, copies of which are contained in Exhibit A hereto.

New Common Stock, no par value (none issued)

Dividends. The holders of shares of Common Stock, no par value, shall be entitled to such dividends as may be declared by the Board of Directors out of legally available funds. No cash dividends can be paid on the

Common Stock, no par value, offered hereby until the Company is able to stop its operating losses and generate earnings. Before any such dividends can be paid, the accumulated deficit in the amount of \$3,971,000 at December 31, 1971 and as adjusted for the application of all unrestricted capital surplus, will have to be eliminated by earnings in like amount. For information as to the accumulated deficit which will remain, see "Capitalization". There can be no assurance that this will ever be done or that any dividends will be paid on the Common Stock, no par value. In addition, so long as any of the Debentures of the Company remain outstanding, no dividends may be paid on the Common Stock, no par value, unless all interest accrued on such Debentures prior to the date of such dividend payment has been paid.

Voting Rights. The holders of the Common Stock, no par value, shall be entitled to one vote for each share held. There is cumulative voting in the election of directors.

Other Provisions. There are no preemptive or conversion rights with respect to the Common Stock, no par value. Upon liquidation, dissolution or winding up the Company, holders of the Common Stock, no par value, will be entitled to share ratably in the net assets of the Company. After payment of all debts and obligations the shares of Common Stock, no par value, will, when issued, be fully paid and non-assessable.

Transfer Agent. The Transfer Agent for the Common Stock, no par value, will be The Fidelity Bank, Philadelphia, Pennsylvania.

Reports to Shareholders. The Company will continue to furnish its shareholders with annual reports containing financial statements examined by independent public accountants. However, there is no assurance that such independent public accountants will be in a position to express an opinion on such financial statements. See Report of Arthur Andersen & Co. herein.

Prior Preferred Stock

The holders of the \$4.00 Dividend Series Prior Preferred Stock are entitled to cumulative fixed dividends at the rate of \$3.00 per share per annum and, additionally, to earned contingent dividends at the rate of \$1.00 per share per annum. The holders of the \$1.60 Dividend Series Prior Preferred Stock are entitled to cumulative fixed dividends at the rate of \$.60 per share per annum and, additionally, to earned contingent dividends at the rate of \$1.00 per share per annum. Fixed dividends on both series are payable quarterly out of the surplus of the Company on the first days of January, April, July and October. Contingent dividends are payable on a date to be fixed by the Board of Directors not later than the first day of May in each year. The contingent dividend is payable only to the extent earned in the preceding calendar year. Whenever less than the full amount of the fixed dividends, including any arrearages is to be paid on the two series, payments are to be made on both series in the proportion of their respective fixed dividend rights. Whenever less than the full amount of the contingent dividends, including any arrearages, is to be paid on the two series, payments are to be made on both series in equal amounts per share. The Company is prohibited from paying cash dividends of any character on the Prior Preferred Stock until all Debenture coupons dated prior to the date of any such dividend payment have been paid or their payment is provided for. No dividends may be declared or paid on the Common Stock until the current quarterly and all accumulated fixed dividends and all earned contingent dividends then unpaid on the Prior Preferred Stock have been paid or set aside for payment. At May 1, 1972, dividend arrearages on the Prior Preferred Stock were \$30.00 per share on the \$4.00 Dividend Series Prior Preferred Stock and \$6.00 on the \$1.60 Dividend Series Prior Preferred Stock, aggregating \$11,470,608 on both series. Although there was net income during the year ended December 31, 1971, there were no available earnings for this period, as defined in the Indenture, for the payment of interest on the outstanding Debentures, and no contingent dividends were earned on the Prior Preferred Stock for this year. Holders of the Prior Preferred Stock are not entitled to share or participate in any stock dividends declared by the Company or to otherwise receive dividends in excess of the rates above described. The Board of Directors is entitled to rely on the certificate of the Company's certified public accountants in determining the amount of earned contingent dividends.

The Prior Preferred Stock has no preemptive rights and no conversion rights. The \$4.00 Dividend Series Prior Preferred Stock is redeemable at \$75 per share plus all accumulated fixed dividends and all earned contingent dividends unpaid at the date of redemption. The \$1.60 Dividend Series Prior Preferred Stock is redeemable at \$25.00 per share plus all accumulated fixed dividends and all earned contingent

dividends unpaid at the date of redemption. The \$4.00 Dividend Series Prior Preferred Stock is entitled to \$65.00 per share plus all accumulated fixed dividends and all earned contingent dividends then unpaid in distribution in the event of bankruptcy, insolvency or voluntary or involuntary dissolution of the Company. The \$1.60 Dividend Series Prior Preferred Stock is entitled to \$25.00 per share plus all accumulated fixed dividends and all earned contingent dividends then unpaid in distribution in the event of bankruptcy, insolvency or voluntary or involuntary dissolution. Such payments in bankruptcy, insolvency or dissolution must be made before any distribution is made to the Common Stock. There are no sinking fund provisions with respect to either series of the Prior Preferred Stock.

All of the issued and outstanding Prior Preferred Stock is fully paid and non-assessable.

Holders of the Prior Preferred Stock have full voting rights. In addition, the Company may not, without the consent of the holders of two-thirds of the Prior Preferred Stock of both series voting as a single class: (1) create any mortgage debt or other obligation which would be entitled to payment out of the assets of the Company prior thereto, excepting such obligations as may be incurred in the ordinary and usual course of business, not secured by a lien upon the Company's property and maturing in twelve months and excepting purchase money obligations given in connection with the acquisition of new property; or (2) create any other issue of stock which in any way would impair the rights of the holders of the two series of Prior Preferred Stock, respectively, or rank *pari passu* with the Prior Preferred Stock. Also, the Company may not without the consent of the holders of two-thirds of the \$4.00 Dividend Series Prior Preferred Stock and of the holders of two-thirds of the \$1.60 Dividend Series Prior Preferred Stock, voting by series, alter or change the preferences, qualifications, limitations, or restrictions of the Prior Preferred Stock or either series thereof. If at any time six quarterly fixed dividends on the Prior Preferred Stock are in arrears, then and until all dividend arrearages thereon are fully paid, the holders of the Prior Preferred Stock, as a single class, are entitled to elect two Directors commencing with the annual meeting of shareholders next succeeding such event. Quarterly fixed dividends are now in arrears for more than six quarters.

There are no restrictions upon the repurchase or redemption of Prior Preferred Stock while there are arrearages on the Prior Preferred Stock. However, in the case of redemption of less than the entire number of outstanding shares of Prior Preferred Stock or any series thereof, the particular shares to be redeemed shall be determined by lot. The Company cannot repurchase or redeem Prior Preferred Stock if such redemption would reduce the remaining net assets below the aggregate preferential amount payable in the event of voluntary liquidation to shares of Prior Preferred Stock not so purchased or redeemed.

Except with respect to the amount of dividends, redemption values and amounts payable in liquidation and dissolution, the two series of Prior Preferred Stock rank *pari passu*.

The Fidelity Bank, Broad and Walnut Streets, Philadelphia, Pennsylvania is the Transfer Agent for both series of Prior Preferred Stock.

Common Stock, \$1.00 par value (Present)

The holders of Common Stock, \$1.00 par value, are entitled to receive dividends when and as declared by the Board of Directors, except that no dividends may be declared or paid on the Common Stock, \$1.00 par value, until the current quarterly and all accumulated fixed dividends and all earned contingent dividends then unpaid on both series of Prior Preferred Stock have been paid or set aside for payment.

The holders of the Common Stock, \$1.00 par value, have full voting power, having one vote per share together with the holders of the Prior Preferred Stock on all matters except: (1) the election of two directors to be elected by the holders of the Prior Preferred Stock voting as a class when six quarterly fixed dividends on the Prior Preferred Stock are in arrears (as they now are) and thereafter until all dividend arrearages are fully paid; (2) the election of directors, in which all shares entitled to vote are entitled to vote cumulatively; (3) authorization of certain types of funded debt as to which the consent of the Prior Preferred Stock alone is required (reference is made to "Prior Preferred Stock" for a full description of such voting rights); (4) authorization of the creation of any issue of stock which in any way impairs the rights of the holders of the Prior Preferred Stock or ranks *pari passu* with the Prior Preferred Stock, which requires a majority vote of the Common Stock and a two-thirds vote of the Prior Preferred Stock; and (5) with respect to any changes or alterations in the preferences, qualifications, limitations or restrictions of the Prior Preferred Stock or either series thereof, which requires in addition to a majority vote of the Common Stock, the consent of the holders of

two-thirds of the outstanding \$4.00 Dividend Series and two-thirds of the outstanding \$1.60 Dividend Series Prior Preferred Stock voting by series.

The Board of Directors consists of nine members, two of whom are Directors elected annually by the Prior Preferred Stock as described above.

The Company is prohibited from paying cash dividends on Common Stock, \$1.00 par value, until all Debenture coupons dated prior to the date of any such dividend payment have been paid or their payment provided for.

The holders of the Common Stock, \$1.00 par value, are entitled in liquidation to share ratably in all of the remaining assets of the Company after payment of all debts and obligations and after payment to the holders of the \$4.00 Dividend Series Prior Preferred Stock of \$65.00 per share plus all accumulated fixed dividends and all contingent dividends then unpaid and the payment to the holders of the \$1.60 Dividend Series Prior Preferred Stock of \$25.00 per share plus all accumulated fixed dividends and all contingent dividends then unpaid.

There is no restriction upon the repurchase of Common Stock, \$1.00 par value, while there are arrearages in the payment of Prior Preferred Stock dividends. However, the Company may not purchase shares when such purchase or redemption would reduce the remaining net assets of the Company below the aggregate preferential amount payable in voluntary liquidation to the Prior Preferred shareholders. Reference is made to the cases of *Tait v. The Curtis Publishing Company* and *Kalodner v. The Curtis Publishing Company, et al.* under "Litigation."

All of the outstanding shares of Common Stock are fully paid and non-assessable. The Common Stock has no preemptive or conversion rights. The Fidelity Bank, Broad and Walnut Streets, Philadelphia, Pennsylvania is the transfer agent for the Common Stock.

APPRAISAL RIGHTS

The Business Corporation Law of Pennsylvania sets forth certain rights and remedies applicable to holders of shares of Prior Preferred Stock of Curtis who may object to and desire to dissent from the cancellation of their right to receive dividends which have accrued but have not been declared. The following brief summary of such rights and remedies does not purport to be complete and is qualified in its entirety by reference to Section 810 and 515 of such law, a copy of which appears in Exhibit C hereto. Under such provisions, a holder of Prior Preferred Stock of Curtis who wishes to demand payment of the fair value of his shares must file with Curtis, prior to the commencement of voting by shareholders upon the Amended and Restated Articles of Incorporation, a written objection thereto and must not vote in favor of this proposal. Voting against the proposal or giving a proxy to vote against it will not constitute such a written objection. In addition, such shareholder must, within 20 days after the date on which the vote on this proposal was taken, make written demand on Curtis for payment of the fair value of his shares, stating the number and class and series, if any, of the shares owned by him with respect to which he dissents. Within 20 days after such demand, such shareholder must submit his certificate or certificates to Curtis for notation that such demand has been made. Within 30 days after the Amended and Restated Articles of Incorporation become effective, Curtis will give written notice thereof to dissenting shareholders who have complied with the foregoing requirements and will make a written offer to each such shareholder to pay a specified price as the fair value of his shares. If, at any time after 60 days and within 90 days after the Amended and Restated Articles of Incorporation become effective, the fair value is not agreed upon between Curtis and a dissenting shareholder, the shareholder may demand court proceedings to value his shares. The costs and expenses of any such proceedings will be assessed against Curtis but may be fully or partly apportioned and assessed against any or all of the dissenting shareholders who are parties to the proceedings if the court shall find that the action of such shareholders in failing to accept Curtis' offer to pay for the shares was arbitrary, vexatious or not in good faith.

The statute provides that unless a shareholder of Curtis files a written objection and makes the necessary demand within the 20-day period described above, he shall be conclusively presumed to have consented to the Amended and Restated Articles of Incorporation and shall be bound by the terms thereof.

The foregoing relates only to holders of Prior Preferred Stock of Curtis. The holders of Common Stock of Curtis will have no appraisal rights.

367a

This page left blank purposely

INDEX TO FINANCIAL STATEMENTS

368a

	Page
 THE CURTIS PUBLISHING COMPANY	
Report of Independent Public Accountants	52
Consolidated Balance Sheet	53
Consolidated Statement of Operations	21
Notes to Statement of Operations, Consolidated and Parent Company	22
Statement of Changes in Shareholders Equity	55
Consolidated Statement of Changes in Financial Position	56
Parent Company Balance Sheet	59
Parent Company Statement of Operations	61
Parent Company Statement of Changes in Financial Position	62
Notes to Parent Company and Consolidated Financial Statements	64
 REVIEW PUBLISHING CO., INC.	
Report of Independent Accountants	74
Consolidated Balance Sheet	75
Statement of Consolidated Operations	25
Statement of Consolidated Retained-Earnings Deficit	77
Statement of Changes in Consolidated Financial Position	78
Notes to Consolidated Financial Statements	79
 PRO FORMA COMBINED STATEMENTS	
Pro Forma Combined Income Statement	27
Pro Forma Condensed Combined Balance Sheet	29

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

369a

To The Curtis Publishing Company:

We have examined the balance sheet of The Curtis Publishing Company (a Pennsylvania corporation) and the consolidated balance sheet of The Curtis Publishing Company and subsidiaries as of December 31, 1971 and the related statements of operations, changes in shareholders' equity and changes in financial position for the three years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Although the volume of operations of the Company and its operating losses have been substantially reduced, the future of the Company as an operating entity is dependent upon the success of its future operations.

As set forth in Note 3, the Company has significant litigation and claims pending and other contingencies. It is not possible to determine the effect of these matters on the financial statements referred to above.

Because of the significance of the matters discussed in the previous paragraphs, we are unable to express an opinion on the financial statements referred to above.

ARTHUR ANDERSEN & Co.

Philadelphia, Pa.,
February 25, 1972
except as to Note (19)
as to which the date is
July 25, 1972.

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

370a

ASSETS

	<u>March 31,</u> 1972 (unaudited)	<u>December 31,</u> 1971
	(in thousands of dollars)	
CURRENT ASSETS:		
Cash	\$ 864	\$ 426
Cash in escrow (Note 3)	33	—
Accounts receivable, net of allowance of \$805,000 at March 31, and \$923,000 at December 31 (Notes 3, 4 and 10)	1,583	1,616
Marketable securities (Note 5)	30	30
Inventories, principally paper, editorial and art inventory, at the lower of average cost or market	115	116
Prepaid printing advances and expenses	171	152
Total current assets	<u>\$ 2,796</u>	<u>\$ 2,340</u>
ACCOUNTS RECEIVABLE DUE JANUARY, 1973 (Note 3)	—	280
PROPERTY AND EQUIPMENT, net (Note 6)	89	95
CASH IN ESCROW (Note 3)	—	33
OTHER ASSETS	50	50
	<u><u>\$ 2,935</u></u>	<u><u>\$ 2,798</u></u>

The accompanying notes are an integral part of this statement.

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

371a

LIABILITIES

	March 31, 1972	December 31, 1971
	(unaudited)	
	(in thousands of dollars)	
CURRENT LIABILITIES:		
Accounts payable	\$ 1,148	\$ 800
Notes payable, including current portion of long-term debt	159	179
Accrued expenses (Note 16)	1,339	1,211
Total current liabilities	\$ 2,646	\$ 2,190
LONG-TERM DEBT	4	4
6% SUBORDINATED INCOME DEBENTURES DUE 1986 (less \$3,120,000 face value of debentures in treasury (Notes 8 and 18)):		
Principal	7,485	7,485
Interest	2,470	2,358
OTHER LIABILITIES (Note 16)	468	747
Liabilities before deferred credits	\$ 13,073	\$ 12,784
SUBSCRIPTIONS PAID IN ADVANCE, net of deferred commission expenses of \$6,674,000 at March 31, and \$7,000,000 at December 31 (Note 15)	2,993	3,007
COMMITMENTS AND CONTINGENCIES (Notes 3, 5, 7, 9, 11 and 13)	—	—
	\$ 16,066	\$ 15,791
SHAREHOLDERS' EQUITY (deficit) (Notes 3 and 18):		
Capital stock (see Note 11 for liquidation preferences) —		
Prior preferred stock, no par value —		
\$4 Dividend series—\$3 cumulative, additional \$1 cumulative to extent earned; authorized and outstanding—334,470 shares; aggregate liquidation preference \$31,774,000, stated at	\$ 16,724	\$ 16,724
\$1.60 Dividend series—\$.60 cumulative additional \$1 cumulative to extent earned; authorized and outstanding— 239,418 shares, aggregate liquidation preference \$7,422,000, stated at	2,394	2,394
Common stock, par value \$1 per share—		
Authorized 8,000,000 shares	3,555	3,555
Issued and outstanding 3,555,568 shares	\$ 22,673	\$ 22,673
Capital surplus	983	983
Accumulated (deficit) (Note 11)	(36,787)	(36,649)
Total shareholders' equity (deficit)	\$ (13,131)	\$ (12,993)
Total liabilities and shareholders' equity (deficit)	\$ 2,935	\$ 2,798

The accompanying notes are an integral part of this statement.

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE FIVE YEARS AND THREE MONTHS ENDED MARCH 31, 1972

372a

	Prior Preferred Stock		Common Stock		Capital Surplus	Retained Earnings (Accumulated Profit)
	Shares	Amount	Shares	Amount		
	(Not Covered by Auditors' Report)					
Balance, December 31, 1966 .	573,888	\$19,118,000	3,530,668	\$3,530,000	\$841,000	\$ (1,963,000)
Net loss	—	—	—	—	—	(4,839,000)
Stock options exercised . . .	—	—	24,900	25,000	142,000	—
Balance, December 31, 1967 .	573,888	\$19,118,000	3,555,568	\$3,555,000	\$983,000	\$ (6,802,000)
Net loss	—	—	—	—	—	(20,886,000)
Excess pension plan funding recovered (Note 13)	—	—	—	—	—	6,080,000
Balance, December 31, 1968 .	573,888	\$19,118,000	3,555,568	\$3,555,000	\$983,000	\$ (21,608,000)
	(Covered by Auditors' Report)					
Net loss	—	—	—	—	—	(19,433,000)
Excess pension plan funding recovered (Note 13)	—	—	—	—	—	2,665,000
Balance, December 31, 1969 .	573,888	\$19,118,000	3,555,568	\$3,555,000	\$983,000	\$ (38,376,000)
Net loss	—	—	—	—	—	(10,000)
Excess pension plan funding recovered (Note 13)	—	—	—	—	—	968,000
Federal income tax settlement (Note 3)	—	—	—	—	—	(3,600,000)
Balance, December 31, 1970 .	573,888	\$19,118,000	3,555,568	\$3,555,000	\$983,000	\$ (41,018,000)
Net income	—	—	—	—	—	2,244,000
Excess pension plan funding recovered (Note 13)	—	—	—	—	—	125,000
Reversal of reserve for income tax contingencies (Note 3)	—	—	—	—	—	2,000,000
Balance, December 31, 1971 .	573,888	\$19,118,000	3,555,568	\$3,555,000	\$983,000	\$ (36,649,000)
(Notes 2, 3, 11 and 18)	573,888	\$19,118,000	3,555,568	\$3,555,000	\$983,000	\$ (36,649,000)
	(Unaudited)					
Net Loss	—	—	—	—	—	(138,000)
Balance, March 31, 1972	573,888	\$19,118,000	3,555,568	\$3,555,000	\$983,000	\$ (36,787,000)
(Notes 2, 3, 11 and 18)	573,888	\$19,118,000	3,555,568	\$3,555,000	\$983,000	\$ (36,787,000)

The accompanying notes to financial statements are an integral part of this statement.

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

373a

	Three Months Ended March 31, 1972 (unaudited)	Years Ended December 31,		
		1971	1970	1969
		(In thousands of dollars)		
Source:				
Net income (loss), including extraordinary items	\$ (138)	\$ 2,244	\$ (10)	\$ (19,433)
Add (deduct) items not affecting working capital—				
Depreciation	6	23	13	1,789
Obsolescence provision	—	—	—	4,800
Debenture interest	112	449	598	598
Provision (reversal) of provision for future losses on home office lease	—	—	(1,636)	1,500
Gain on the purchase of debentures, including interest	—	(2,629)	—	—
Gain on the curtailment of THE SATURDAY EVENING POST circulation	—	—	(1,000)	(3,688)
Increase (decrease) in subscriptions paid in advance, net	(14)	(272)	(427)	1,886
	<u>\$ (34)</u>	<u>\$ (185)</u>	<u>\$ (2,462)</u>	<u>\$ (12,548)</u>
Proceeds from sales of property and equipment less expenses and extraordinary credit in 1970	—	—	9,850	4,716
Excess pension plan funding recovered	—	125	968	2,665
Reversal of reserve for income tax contingencies	—	2,000	—	—
Increase (decrease) in other long-term liabilities, etc.	(279)	308	(867)	(2,896)
	<u>\$ (313)</u>	<u>\$ 2,248</u>	<u>\$ 7,489</u>	<u>\$ (8,063)</u>
Application:				
Federal income tax settlement	\$ —	\$ —	\$ 3,600	\$ —
Increase (decrease) of other assets	(313)	318	(171)	(262)
Additions to property and equipment, including \$431,000 of SEPCO in 1969	—	32	—	574
Funds paid and to be paid in connection with purchase of debentures	—	489	—	—
Increase in working capital as of January 1, 1969, due to consolidation of SEPCO	—	—	—	2,743
Increase (decrease) in working capital	—	1,409	4,060	* (11,118)
	<u>\$ (313)</u>	<u>\$ 2,248</u>	<u>\$ 7,489</u>	<u>\$ (8,063)</u>

*Represents decrease in working capital for 1969 after consolidating SEPCO as of January 1, 1969.

(continued on next page)

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (Continued)

374a

		Increase (Decrease)		
	Three Months Ended March 31, 1972 (unaudited)	Years Ended December 31,		
		1971	1970	1969
		(in thousands of dollars)		
Changes In Working Capital				
Current Assets:				
Cash	\$ 438	\$ (1,074)	\$ 747	\$ (647)
Funds in escrow	33	(5,600)	3,362	2,238
Notes and accounts receivable	(33)	19	(3,482)	(2,508)
Marketable securities	—	(720)	—	750
Inventories	(1)	(142)	(574)	(6,483)
Prepays	19	(305)	21	—
	<u>\$ 456</u>	<u>\$ (7,822)</u>	<u>\$ 74</u>	<u>\$ (6,650)</u>
Current Liabilities:				
Accounts payable	\$ 348	\$ (943)	\$ (2,206)	\$ (1,180)
Notes payable	(20)	(88)	(3,382)	2,537
Accrued expenses	128	(1,200)	(2,198)	(532)
Federal income taxes payable	—	(5,000)	5,000	—
Reserve for income tax contingencies	—	(2,000)	(1,200)	—
Due to SEPCO	—	—	—	(5,192)
	<u>\$ 456</u>	<u>\$ (9,231)</u>	<u>\$ (3,986)</u>	<u>\$ (4,367)</u>
Increase (decrease) in working capital	<u>\$ —</u>	<u>\$ 1,409</u>	<u>\$ 4,060</u>	<u>\$ (2,283)</u>

The accompanying notes are an integral part of this statement.

375a

This page left blank purposely

THE CURTIS PUBLISHING COMPANY
PARENT COMPANY BALANCE SHEET

376a

ASSETS

	<u>March 31,</u> <u>1972</u> (unaudited)	<u>December 31,</u> <u>1971</u>
	(in thousands of dollars)	
Current Assets:		
Cash	\$ 155	\$ 120
Cash in escrow (Note 3)	33	—
Accounts receivable, net of allowance of \$100,000 (Notes 3, 4 and 10)	620	633
Due from subsidiary	1,973	1,878
Marketable securities, at the lower of cost or market	30	30
Prepaid expenses	<u>4</u>	<u>4</u>
Total current assets	\$2,815	\$2,665
Accounts receivable due January, 1973 (Note 3)	—	280
Property and equipment, net (Note 6)	12	12
Cash in escrow (Note 3)	—	33
Other assets	<u>50</u>	<u>50</u>
	<u>\$2,877</u>	<u>\$3,040</u>

The accompanying notes are an integral part of this statement.

**THE CURTIS PUBLISHING COMPANY
PARENT COMPANY BALANCE SHEET**

377a

LIABILITIES

	<u>March 31,</u> <u>1972</u> (unaudited)	<u>December 31,</u> <u>1971</u>
	(in thousands of dollars)	
Current Liabilities:		
Accounts payable	\$ 587	\$ 541
Notes payable, including current portion of long-term debt	159	179
Accrued expenses (Note 16)	1,237	1,026
Total current liabilities	<u>\$ 1,983</u>	<u>\$ 1,746</u>
Long-Term Debt	4	4
6% Subordinated Income Debentures due 1986 (less \$3,120,000 face value of debentures in treasury) (Notes 8 and 18):		
Principal	7,485	7,485
Interest	2,470	2,358
Other Liabilities (Note 16)	468	747
Liabilities before deferred credits ar: investment in subsidiaries	<u>\$ 12,410</u>	<u>\$ 12,340</u>
Subscriptions paid in advance, net of deferred commission expenses of \$1,646,000 at March 31 and \$1,858,000 at December 31 (Note 15)	439	497
Investment in subsidiaries, at equity	3,159	3,196
Commitments and contingencies (Notes 3, 7, 9, 11 and 13)	—	—
	<u>\$ 16,008</u>	<u>\$ 16,033</u>
Shareholders' Equity (deficit) (Notes 3 and 18):		
Capital stock (see Note 11 for liquidation preferences)—Prior preferred stock, no par value—		
\$4 Dividend series—\$3 cumulative, additional \$1 cumulative to extent earned; authorized and outstanding—334,470 shares; aggregate liquidation preference \$31,774,000, stated at	\$16,724	\$ 16,724
\$1.60 Dividend series—\$.60 cumulative, additional \$1 cumulative to extent earned; authorized and outstanding—239,418 shares, aggregate liquidation preference \$7,422,000, stated at	2,394	2,394
Common stock, par value \$1 per share—		
Authorized 8,000,000 shares		
Issued and outstanding 3,555,568 shares	3,555	3,555
	<u>\$ 22,673</u>	<u>\$ 22,673</u>
Capital surplus	983	983
Accumulated (deficit) (Note 11)	(36,787)	(36,649)
Total shareholders' equity (deficit)	<u>\$ (13,131)</u>	<u>\$ (12,993)</u>
Total liabilities and shareholders' equity (deficit)	<u>\$ 2,877</u>	<u>\$ 3,040</u>

The accompanying notes are an integral part of this statement.

THE CURTIS PUBLISHING COMPANY
(Parent Company)

378a

STATEMENT OF OPERATIONS

The statement of operations of The Curtis Publishing Company (parent company) for the three years ended December 31, 1971, has been examined by Arthur Andersen & Co., independent public accountants, as set forth in their report (wherein they are unable to render an opinion) included elsewhere herein. The statements of operations for the two years ended December 31, 1968 and for the three months ended March 31, 1972 and 1971, have not been examined by independent public accountants, but, in the opinion of the Company include all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the results of operations for the periods. The statements should be read in conjunction with the financial statements and related notes thereto, and with the Notes to Statements of Operations, Consolidated and Parent Company, contained elsewhere herein.

	Three Months Ended March 31,		Years Ended December 31,				
	1972 (unaudited)	1971 (unaudited)	1971 (in thousands of dollars)	1970 (in thousands of dollars)	1969 (in thousands of dollars)	1968 (unaudited)	1967 (unaudited)
Net revenues:							
Net revenues from discontinued operations (Note b)	\$ —	\$ —	\$ —	\$ —	\$ 20,790	\$ 91,682	\$108,478
Royalty income, etc.	15	—	139	—	—	—	—
	<u>\$ 15</u>	<u>\$ —</u>	<u>\$ 139</u>	<u>\$ —</u>	<u>\$ 20,790</u>	<u>\$ 91,682</u>	<u>\$108,478</u>
Costs and expenses:							
Production and delivery before depreciation	\$ —	\$ —	\$ —	\$ —	\$ 22,492	\$ 74,746	\$ 81,893
Selling, general and administrative	85	232	741	1,286	4,635	28,993	31,359
Reduction of reserves (Note f)	—	—	(1,248)	(800)	—	—	—
Depreciation	—	—	2	3	1,209	2,398	2,298
Interest, net	105	107	377	585	808	2,379	2,100
	<u>\$ 190</u>	<u>\$ 339</u>	<u>\$ (128)</u>	<u>\$ 1,074</u>	<u>\$ 29,144</u>	<u>\$108,516</u>	<u>\$117,650</u>
Income (loss):							
Before income (loss) of subsidiaries and before extraordinary charges or credits	\$(175)	\$(339)	\$ 267	\$(1,074)	\$ (8,354)	\$(16,834)	\$ (9,172)
From operations of The Saturday Evening Post Company (Note a)	—	—	—	—	—	(1,604)	—
Of subsidiaries (including extraordinary items—\$215,000 credit in 1971, \$25,000 credit in 1970, and a net charge of \$2,109,000 in 1969 (Notes c and e)	37	35	(952)	(1,828)	(4,892)	155	4,333
Income (loss) before extraordinary items of parent company	\$(138)	\$(304)	\$ (685)	\$(2,902)	\$(13,246)	\$(18,282)	\$ (4,839)
Extraordinary items, net (Notes c and e)	—	—	2,929	2,892	(6,187)	(2,603)	—
Net income (loss)	<u>\$(138)</u>	<u>\$(304)</u>	<u>\$ 2,244</u>	<u>\$ (10)</u>	<u>\$(19,433)</u>	<u>\$(20,886)</u>	<u>\$ (4,839)</u>

The accompanying notes are an integral part of this statement.

THE CURTIS PUBLISHING COMPANY

(Parent Company)

379a

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Three Months Ended March 31, 1972 (unaudited)	Years Ended December 31,		
		1971	1970	1969
		(in thousands of dollars)		
Source:				
Net income (loss) (including extraordinary items but excluding income or loss of subsidiaries)	\$ (175)	\$ 3,196	\$ 1,818	\$ (14,541)
Add (deduct) items not affecting working capital—				
Depreciation	—	2	3	1,209
Obsolescence provision	—	—	—	4,800
Debenture interest	112	449	598	598
Provision (reversal) of provision for future losses on home office lease	—	—	(1,636)	1,500
Gain on the purchase of debentures, including interest	—	(2,629)	—	—
Gain on the curtailment of THE SATURDAY EVENING POST circulation	—	—	(975)	(3,688)
Decrease in subscriptions paid in advance, net	(58)	(293)	(620)	(435)
	\$ (121)	\$ 725	\$ (812)	\$ (10,557)
Proceeds from sales of property and equipment, less expenses and extraordinary credit in 1970	—	—	9,821	4,716
Excess pension plan funding recovered ..	—	—	968	2,665
Reversal of reserve for income tax contingencies	—	2,000	—	—
Increase (decrease) in other long-term liabilities, etc.	(279)	308	(867)	(2,170)
Decrease in investments and utilization of obsolescence reserve	—	—	—	3,760
Decrease in payables due subsidiaries as a result of dissolution	—	10,798	—	—
	\$ (400)	\$ 13,831	\$ 9,110	\$ (1,586)
Application.				
Federal income tax settlement	\$ —	\$ —	\$ 3,600	\$ —
Increase (decrease) of other assets	(313)	318	(171)	(113)
Additions to property and equipment ..	—	7	—	69
Funds paid and to be paid in connection with purchase of debentures	—	489	—	—
Increase (decrease) in working capital ..	(87)	13,017	5,681	(1,542)
	\$ (400)	\$ 13,831	\$ 9,110	\$ (1,586)

(continued on next page)

THE CURTIS PUBLISHING COMPANY

380a

(Parent Company)

STATEMENT OF CHANGES IN FINANCIAL POSITION (Continued)

	Three Months Ended March 31, 1972 (unaudited)	Increase (Decrease) Years Ending December 31,		
		1971	1970	1969
		(in thousands of dollars)		
Changes In Working Capital				
Current Assets:				
Cash and cash items	\$ 35	\$ (1,069)	\$ 891	\$ (758)
Funds in escrow	33	(5,600)	4,862	738
Notes and accounts receivable	(13)	107	(3,464)	(2,973)
Marketable securities	—	(20)	—	50
Inventories	—	—	(119)	(3,984)
Prepaid expenses	—	(5)	(61)	(359)
Due from subsidiary	95	1,878	—	—
	<u>\$ 150</u>	<u>\$ (4,709)</u>	<u>\$ 2,109</u>	<u>\$ (7,286)</u>
Current Liabilities:				
Accounts payable	\$ 46	\$ (171)	\$ (1,620)	\$ (1,704)
Notes payable	(20)	(88)	(1,872)	1,087
Accrued expenses	211	(1,112)	(2,252)	385
Due to subsidiaries	—	(9,355)	(1,628)	(5,512)
Federal income taxes payable	—	(5,000)	5,000	—
Reserve for income tax contingencies ...	—	(2,000)	(1,200)	—
	<u>\$ 237</u>	<u>\$ (17,726)</u>	<u>\$ (3,572)</u>	<u>\$ (5,744)</u>
Increase (decrease) in working capital	<u>\$ (87)</u>	<u>\$ 13,017</u>	<u>\$ 5,681</u>	<u>\$ (1,542)</u>

The accompanying notes are an integral part of this statement.

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES

381a

NOTES TO PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Consolidation and Company's Operations.

The Consolidated financial statements include the accounts of The Curtis Publishing Company and its subsidiaries, all of which are wholly-owned and accounted for on the equity basis. Intercompany balances and transactions have been eliminated.

The Company's printing plant and paper mill were closed in 1969. This resulted in the discontinuance of all operating revenues of the parent company. The continuing operations discussed in the subsequent paragraph pertain to the Company's subsidiary, The Saturday Evening Post Company.

The net revenues of the continuing operations as of December 31, 1971, consisting of eight issues of HOLIDAY, twelve issues of JACK AND JILL, and three issues of the new quarterly, THE SATURDAY EVENING POST magazines, were \$5,700,000. In 1970, the revenues from continuing operations were \$6,700,000 which included nine issues of HOLIDAY and thirteen issues of JACK AND JILL magazines. The net revenues for the three months ended March 31, 1972, consisting of two issues of HOLIDAY, three issues of JACK AND JILL, and one issue of THE SATURDAY EVENING POST magazines, were \$1,646,000.

The Company's continuing operations, the new quarterly, THE SATURDAY EVENING POST, HOLIDAY and JACK AND JILL magazines, incurred operating losses of approximately \$1,700,000 in 1970, \$1,200,000 in 1971, and an operating profit of \$37,000 for the three months ended March 31, 1972. Such operating profits and losses are before corporate expenses not directly allocable to the operations of these magazines. See Note 9 for management services rendered by Review Publishing Co., Inc.

(2) Printing Plant and Paper Mill.

At December 31, 1968, it was anticipated that the Company's printing plant (Sharon Hill) and paper mill (Johnsonburg) operations would operate at a considerable loss if substantial other business was not obtained to replace the loss of major contracts. In order to reduce the book value of such assets to an amount more closely reflecting their market values, management provided an arbitrary allowance for obsolescence of \$20,000,000 at December 31, 1968, and subsequently increased this allowance by an additional \$4,800,000 as of December 31, 1969.

In August 1969, the Company sold its paper mill (New York & Pennsylvania Co., Inc.) and commercial printing operations (including the Packard Press, Inc.) for approximately \$5,000,000. These sales resulted in a loss of \$12,300,000 which was charged against the obsolescence reserve. See Note 3 regarding final settlement on purchase price.

The closing of the printing plant (Sharon Hill) resulted in the Company incurring a severance and vacation pay liability of approximately \$2,700,000; substantially all of which has been paid by December 31, 1971.

At December 31, 1969, the sale of the Company's land and buildings of its printing plant (Sharon Hill) and other equipment, was anticipated. The book values of the land, building and machinery and equipment as of December 31, 1969, were therefore reduced to reflect the approximate net proceeds from the anticipated sales.

In 1970, the Company sold the land and buildings of its printing plant (Sharon Hill) to General Electric Company for \$9,250,000 before expenses. The Company also sold printing equipment and furniture and fixtures for approximately \$1,900,000. Net proceeds from the sales exceeded the estimated realizable values and accrued expenses recorded at December 31, 1969, by approximately \$281,000, which had been recorded as an extraordinary credit in 1970. Of the net cash proceeds (\$11,150,000 net of \$1,200,000 of expenses)

NOTES TO PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

\$7,200,000 was placed in escrow for Federal income tax assessments which were subsequently settled for approximately \$5,000,000 (see Note 3). In addition approximately \$1,715,000 was paid to satisfy equipment notes payable and the remainder of the cash proceeds was retained by the Company for its general use.

The remaining property, after other minor sales of property, consists primarily of office furniture and equipment with a net book value of \$95,000 and \$89,000 at December 31, 1971 and March 31, 1972, respectively.

(3) Commitments and Contingencies.

(a) On October 13, 1969, the Federal Trade Commission (FTC) filed a complaint that the Company, during the cutback and the final discontinuance of THE SATURDAY EVENING POST in early 1969, should not only have provided the former subscribers with an opportunity to transfer their subscriptions to other magazines but also have advised them of their right to a refund. The FTC complaint sought an order which would require Curtis now to offer cash refunds for the uncompleted portions of any subscriptions and sought to compel Curtis to advise all of its former subscribers of their alleged right to a refund. The potential liability was estimated to be in excess of \$20,000,000 if all POST subscribers were to receive cash refunds. The Company contested the FTC's complaint, on the grounds, inter alia, that the FTC does not have jurisdiction to make such an order. On October 23, 1970, the hearing examiner filed an initial decision dismissing the complaint. An appeal to the FTC was filed by complaint counsel.

On June 30, 1971 the FTC issued a final order dismissing its complaint.

There is pending, a private class action to compel cash refunds to all former subscribers. Because no discovery has taken place in this pending action, the Company is unable to estimate the potential liability which would result from an adverse judgment in this action.

(b) The Company reached an agreement in July 1971 with the purchaser of New York and Pennsylvania Co., Inc. (a subsidiary sold in 1969), whereby the remaining purchase price and other items were settled for \$700,000. The amount is payable in four quarterly principal installments of \$105,000, of which the first was received in December 1971, and the remainder of \$280,000 is payable on January 1, 1973. Under an agreement discussed in Note 8, 25% of the proceeds will be placed in escrow for payment of settlement costs. See Note (19) for recent developments.

(c) Income taxes:

1. Federal income tax deficiencies of \$5,916,000 (before interest) were filed in 1968 against two former subsidiaries relating primarily to matters involving intercompany charges. In 1969, these subsidiaries filed petitions with the Tax Court contesting the deficiencies. In October 1970, settlement was reached with the Internal Revenue Service whereby the deficiencies were removed by payment of \$3,383,000 in taxes and \$1,685,000 in interest, such payment being made in early 1971.

The Company in 1970 had recorded a total of \$5,000,000 as Federal income tax assessment payable, charging \$1,200,000 to the reserve for income tax contingencies, \$200,000 representing 1970 interest as a current operating expense and \$3,600,000 as a charge to accumulated deficit.

2. A reserve of \$2,000,000 (all of which was provided in prior years) had been made for income tax contingencies. In 1971 management determined that this reserve was no longer deemed necessary and the entire reserve was credited against retained earnings (deficit).

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES

383a

NOTES TO PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Tax loss carryforwards:

Based upon the tax returns, as filed or to be filed, the Company's net operating losses would expire as follows:

1972	\$ 9,500,000
1973	4,600,000
1974	19,000,000
1975	3,300,000
1976	3,000,000

The Company's Federal income tax returns for 1963 and all subsequent years are subject to audit by the Internal Revenue Service and the net operating loss carryforwards could therefore be subject to significant change. The utilization of the above net operating loss carryforwards is also subject to the Company's ability to generate taxable income of the types and in the amounts necessary to utilize such carryforwards prior to the above years of expiration.

(d) The Company is normally subject to, and now has pending against it, a number of libel and right-of-privacy actions. Historically, and at present, damages claimed in many of such suits are substantial and unrelated to any amounts which the plaintiffs could be expected to recover. Except for one settlement for \$310,000, the largest payment made by the Company in the last 15 years to any plaintiff in a libel or right-of-privacy suit was \$100,000.

In 1970 and 1971, the Company was able to reduce significantly the number of such suits through settlements and dismissals. It is the opinion of the Company and counsel that the remaining such suits will not have a material adverse effect upon the business or financial position of the Company.

(e) On March 17, 1971, the Company obtained a special injunction against a former officer and director of the Company restraining him from bringing a threatened action seeking liquidation of the Company. In June 1971, this matter was settled (see Note 8).

(f) The Company is a party to miscellaneous other actions and claims. These claims or actions could have a material adverse effect upon the business or financial position of the Company. If all of such actions and claims were decided adversely to the Company, the Company's liability could be in excess of \$5,000,000.

(g) See Note 13 in connection with expected liquidating payment of the SEPCO pension trust. See Note 7 for lease obligations. See Note 11 in reference to contingent dividends on Prior Preferred Stock. See Note 10 in reference to settlement agreement and arbitration agreement with Cadence. See Note 5 in reference to the purchase of Lin Broadcasting Corp. common stock.

(4) Accounts Receivable.

In accordance with trade practice, the unpaid portion of paid-during-service subscription contracts at December 31, 1971 and March 31, 1972, has been included in current assets. These accounts are payable primarily in monthly installments of up to 36 months. It is not practicable to state the amounts not realizable within one year. Such items aggregated (before reserves for allowances), \$425,000 at December 31, 1971 and \$345,000 at March 31, 1972.

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES

384a

NOTES TO PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Marketable Securities.

On January 9, 1969, The Saturday Evening Post Company purchased 79,511 shares of Lin Broadcasting Corp. common stock for \$44 a share. The quoted market price on that date was \$30 per share. At December 31, 1969, the investment was written down by \$2,975,000 to \$700,000, to reflect the approximate quoted market value. In 1971, the Company sold the 79,511 shares for approximately \$915,000, and the resulting gain of \$215,000 was recorded as an extraordinary credit.

The Saturday Evening Post Company has instituted proceedings to, inter alia, rescind said purchase and to recover said purchase price from the seller on the basis of alleged misrepresentations by the seller at the time of the purchase. The seller has filed a counterclaim requesting judgment requiring the Company to indemnify him against all claims made in certain class actions against him. In the opinion of the Company and counsel, the counterclaim is without merit. See "Litigation—Holiday Publishing Company v. Frederic Gregg, Jr., Lin Broadcasting Corporation, Joel M. Thrope, Clyde W. Clifford, Peter J. Solomon, David Steine and Thomas I. Unterberg, U.S.D.C.S.D.N.Y., 69 Civ. 1808".

(6) Property, Plant and Equipment.

Consolidated:

Property and equipment at March 31, 1972 and December 31, 1971 comprises:

	March 31, 1972	December 31, 1971
Assets—at cost:		
Land	\$ 3,000	\$ 3,000
Office furniture and equipment	253,000	253,000
	\$256,000	\$256,000
Less—Accumulated depreciation	(167,000)	(161,000)
	<u>\$ 89,000</u>	<u>\$ 95,000</u>

Parent Company:

Property and equipment at March 31, 1972 and December 31, 1971 comprises:

	March 31, 1972	December 31, 1971
Assets—at cost:		
Land	\$ 3,000	\$ 3,000
Office furniture and equipment	17,000	17,000
	\$ 20,000	\$ 20,000
Less—Accumulated depreciation	(8,000)	(8,000)
	<u>\$ 12,000</u>	<u>\$ 12,000</u>

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES

385a

NOTES TO PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The average effective rates of depreciation vary from 4% to 10% applied on a straight-line basis.

The cost of assets and related accumulated depreciation are removed from the accounts at the time of retirement or when otherwise disposed. Profit or loss, if any, is recorded in the income accounts. Expenditures for maintenance and repairs are charged to the income accounts; major improvements and betterments are capitalized and depreciated over the respective lives of the improved asset.

(7) Lease Obligations.

The Company provided a reserve of \$1,514,000 in 1968 for estimated future losses representing the excess of its home office lease obligations over anticipated utilization and income from sublessees. In 1969, the Company provided an additional \$2,500,000 for such possible future losses and had a reserve of \$3,300,000 covering the entire home office lease obligation for the unused space as of December 31, 1969.

During 1970, the Company entered into a termination agreement with the lessor, under which the lease was terminated effective July 31, 1970. The reversal of the remaining reserve of \$1,636,000, after lump sum settlement payment, amortization, and expenses, was recorded as an extraordinary credit.

The Company has remaining lease obligations, primarily for sales offices, with aggregate annual rentals as follows:

1972 (9 months)	\$39,000
1973	20,000
1974 through 1982	19,000

In addition the Company has arrangements with Review Publishing Co., Inc. for rental of space and other facilities (see Note 9).

(8) Purchase of 6% Subordinated Income Debentures.

On June 22, 1971, the Company acquired \$2,485,000 principal amount, plus accrued interest, of its 6% Subordinated Income Debentures due 1986 from a former director and officer as part of the settlement of certain litigation (see Note 3e). The settlement also provided for, among other things, that the former officer was appointed special counsel for the Company in two matters involving claims by the Company against third parties. In addition, the settlement also involves an obligation of the Company to pay another party \$161,000 on or before March 31, 1974. The resulting gain, net of expenses and payments due under the settlement agreement, was \$2,629,000 which has been recorded as an extraordinary credit in 1971.

(9) Business With Review Publishing Co., Inc.

In 1970 and early 1971, the Company entered into various agreements with Review Publishing Co., Inc. (Review) and with Review's president and sole shareholder Mr. Beurt R. SerVaas, who is also the chairman of the board and president and a shareholder of the Company. These agreements provide, among other things, that:

(a) Review is to provide management services to The Saturday Evening Post Company (a wholly-owned subsidiary) in connection with the publication of HOLIDAY and JACK AND JILL magazines for

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES

NOTES TO PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

a period of three years commencing July 1, 1970, and ending June 30, 1973, for an annual fee of \$50,000 (of which \$25,000 was charged in 1970 and \$50,000 in 1971), with a provision that if the magazines show an operating profit during the period July 1, 1972 to June 30, 1973, Review has the right to renew the agreement for an additional three-year period ending June 30, 1976. This agreement has been amended to provide management services in connection with the new magazine THE SATURDAY EVENING POST. The annual fee was increased as a result of the amendment.

(b) Review will provide subscription accounting and customer service functions for both HOLIDAY and JACK AND JILL at an annual estimated cost of approximately \$120,000 (of which \$38,000 was charged in 1970 and \$120,000 in 1971).

(c) Cost allocation between the two companies for rent (paid to an affiliate of Review) and supplies and the cost of services performed by Review personnel on the premises of Review in Indianapolis, Indiana were approximately \$11,000 in 1970 and \$153,000 including rent and related occupancy cost of \$55,000 in 1971.

(d) In 1970 the Company entered into an employment agreement with Mr. Beurt R. SerVaas under which the Company agreed to employ Mr. SerVaas in an executive capacity for a period of three years commencing July 1, 1970, and ending June 30, 1973, with compensation at the rate of \$50,000 a year and with reimbursement for expenses.

(e) See Note 18 for plan of acquisition of Review and related items.

(10) Transactions Under Settlement Agreement.

Under the terms of an agreement, dated November 26, 1969, claims were settled among The Curtis Publishing Company (Curtis), The Saturday Evening Post Company (SEPCO), Cadence Industries Corporation, (formerly Perfect Film & Chemical Corporation) and certain individuals. The major terms were as follows:

1. Curtis acquired operating control of SEPCO.
2. The assets taken over by Cadence in 1968 to secure payment of indebtedness were returned to Curtis except for property converted to cash which had been credited to Curtis' account, and except for certain notes (approximately \$395,000) due from franchise holders which were purchased by Cadence at face value.
3. Cadence retained the circulation and subscription companies and other assets which had been transferred by agreement dated June 29, 1968. The final fair and equitable price for these assets and the credit to be given to Cadence for previous consideration paid, if any, was to be determined by a panel of arbitrators. The arbitration hearings were concluded in the beginning of 1971, and Curtis was awarded \$300,000 by the arbitration panel. Curtis appealed, but in early 1972 withdrew its suit and recorded the \$300,000 additional purchase proceeds as an extraordinary credit in 1971.

(11) Capital Stock and Deficit.

The Company was in arrears in payment of cumulative dividends on Prior Preferred Stock including the dividends accruing January 1 and April 1, 1972, as follows:

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES

387a

NOTES TO PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	March 31, 1972		December 31, 1971	
	Per Share	Total	Per Share	Total
\$4 Dividend series \$3 cumulative	\$30.00	\$10,034,100	\$29.25	\$ 9,783,247
\$1.60 Dividend series \$.60 cumulative	6.00	1,436,508	5.85	1,400,595
		<u>\$11,470,608</u>		<u>\$11,183,842</u>

The \$4 and \$1.60 Dividend Series Prior Preferred Stocks are callable on the first day of a calendar quarter with 30 days notice at \$75 and \$25 per share, respectively, plus accrued dividends. In the event of liquidation, the \$4 and \$1.60 Dividend Series Prior Preferred Stock have preference rights of \$65 and \$25 per share, respectively, plus accrued dividends. The aggregate preferences of Prior Preferred Stock in liquidation amounted to \$38,910,000 at December 31, 1971 and \$39,197,000 at March 31, 1972. Accordingly, no payments in liquidation may be made on the Common Stock until the preferred shareholders are paid that amount. There are two suits pending seeking to compel the accrual and/or payment of contingent dividends for the years 1965 and 1966.

Under the Company's Qualified Stock Option Incentive Plan, as amended in 1964, stock options are generally exercisable cumulatively as to 20% of such shares in each of the five years following the date of grant. Options granted under the original plan are exercisable until ten years following the date of grant. No options were granted during 1972 and 1971, and none were outstanding as of December 31, 1971 and March 31, 1972. A maximum of 226,267 shares of Common Stock are reserved for issuance under the original and amended plans.

In 1962, a former executive was granted options outside the plan for 20,000 shares of common stock at \$6.32 per share. Such options are exercisable to October 15, 1972, and none was exercised in 1972 and 1971.

Details of options outstanding are:

Date of Grant	Shares Under Option	At Date of Grant			
		Option Price		Market Value	
		Per Share	Total	Per Share	Total
October 15, 1962	20,000	\$6.32	\$126,000	\$7.38	\$148,000

Reference is made to Note 18 regarding proposed plan of recapitalization and acquisition.

(12) Agreement With Noteholders of SEPCO.

On November 26, 1969, the Company, Cadence Industries Corporation (Cadence) (formerly Perfect Film & Chemical Corporation) and SEPCO Noteholders reached an agreement under which notes which aggregated \$10,000,000 were cancelled in consideration for the payment of \$8,500,000. As of December 31, 1969, Company had paid \$7,000,000 to the Noteholders, and the remaining \$1,500,000 (held in escrow) was paid in 1970. The resulting gain, net of unamortized debt expense, of \$1,202,000 had been recorded as an extraordinary item by the Company in 1969. In addition, accrued interest of \$385,000 on such notes was cancelled.

(13) Pension Plan.

In 1968, the Company's Board of Directors authorized the transfer to the Company of \$6,080,000 of the actuarially computed excess of funding of the Curtis Pension Plan over the accrued liabilities to covered

NOTES TO PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

employees in anticipation of the early termination of the Plan. This amount was recorded as a decrease in accumulated deficit in 1968, since it was not practicable to identify the excess with specific prior periods.

The Curtis Pension Plan was not actually terminated until December 31, 1969. As of that date, the remaining employees of the Company were transferred to employment with the Saturday Evening Post Company, which assumed the pension liability allocable to such employees, and the Board of Directors authorized a transfer of funds from the Curtis Pension Trust to the SEPCO Pension Trust in an amount sufficient to fully fund the accrued liabilities to such employees.

The Trustees also transferred to a separate pension trust amounts representing the portion of the Pension Fund allocable to the former employees of the Company who were transferred to the circulation and subscription companies (which companies are owned by Cadence Industries Corporation, formerly Perfect Film & Chemical Corporation).

After completion of transfers to the trusts noted, and payment of expenses of the Curtis Pension Plan and Trust, the Company's Board of Directors authorized the Pension Trustees to pay to the Company all remaining assets of the Pension Plan. Based on actuarial review as of December 31, 1969, it was anticipated that the remaining assets would be no less than \$8,745,000, which amount had been recorded by the Company as a decrease in accumulated deficit: \$6,080,000 in 1968 and \$2,665,000 in 1969. (Pending completion of all the purchases, transfers and payments previously noted, at December 31, 1969, promissory notes were issued for the \$2,665,000 which was represented by \$500,000 cash received in December, 1969, and \$2,165,000 due from the Pension Fund for which cash was received in January through March, 1970). Subsequently, a final determination was made of the excess funding and liquidating payments of \$968,000 were made to the Company, which amount has also been recorded as a decrease in accumulated deficit in 1970.

Effective December 31, 1970, the SEPCO Pension Trust was terminated, and the Board of Directors authorized the Trustees to provide for the accrued benefits of eligible employees, and to refund to the Company any balance remaining. As of December 31, 1971, \$125,000 has been refunded to the Company. A final liquidating payment of approximately \$50,000 is anticipated but has not been recorded.

After the above liquidation, there are no other Company pension plans.

(14) Net Deferred Credit Relating to THE SATURDAY EVENING POST.

Under a May 1968 agreement, certain subscribers were offered other magazines. When the publication of THE SATURDAY EVENING POST was discontinued with the February 8, 1969 issue, subscribers at that time also were offered other magazines. To the extent that subscribers accepted other magazines, the Company recorded as extraordinary income items, amounts of \$3,688,000 in 1969 and \$703,000 in 1968, which represented the excess of the deferred credit of the subscription selling price less deferred commission and other costs.

In 1970, the Company was informed that the substitution program was completed, and the Company recorded the remaining net deferred credit of \$1,000,000 as an extraordinary credit.

(15) Subscriptions Paid in Advance, Net.

In November, 1968, Curtis transferred the assets applicable to three magazines—THE SATURDAY EVENING POST, HOLIDAY and STATUS—to a subsidiary. The unamortized aggregate subscription selling

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES

389a

NOTES TO PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

price, less deferred commissions remained on the books of Curtis. As of January 1, 1969, Curtis also transferred the assets of JACK AND JILL to the subsidiary and retained the subscriptions paid in advance, net.

The subsidiary, by delivering magazines for the Parent, receives credit from the Parent for subscriptions fulfilled. During 1971 and 1972, credits received were approximately \$293,000 and \$58,000, respectively.

(16) Accrued Expenses and Other Liabilities.

Accrued expenses consist of the following:

	March 31, 1972		December 31, 1971	
	Consolidated	Parent Company	Consolidated	Parent Company
	(in thousands of dollars)			
	(unaudited)			
Payroll	\$ 5	\$ —	\$ 21	\$ —
Legal and accounting	181	160	220	200
Reserve for collection and other expenses related to disputed claims settled (Note 8)	282	282	105	103
Interest	30	30	32	32
Miscellaneous taxes, etc.	359	336	370	335
Severance and deferred compensation	326	326	254	254
Reserve for moving expenses	24	24	21	21
Other	132	79	190	81
	<u>\$1,339</u>	<u>\$1,237</u>	<u>\$1,211</u>	<u>\$1,026</u>
Other liabilities consist of the following —				
Settlement costs (Note 8)	\$ 161	\$ 161	\$ 336	\$ 336
Other	50	50	71	71
Severance and deferred compensation	257	257	340	340
	<u>\$ 468</u>	<u>\$ 468</u>	<u>\$ 747</u>	<u>\$ 747</u>

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES

390a

NOTES TO PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(17) Supplementary Profit and Loss Information:

	Consolidated			Parent Company		
	Charged to Production and Delivery Expense	Charged to Selling, General and Administrative Expense	Total	Charged to Production and Delivery Expense	Charged to Selling, General and Administrative Expense	Total
	(in thousands of dollars)					
MAINTENANCE AND REPAIRS						
Year ended December 31, 1969	\$ 872	\$233	\$1,105	\$258	\$212	\$470
Year ended December 31, 1970	—	25	25	—	16	16
Year ended December 31, 1971	—	7	7	—	—	—
Three months ended March 31, 1972 ..	—	1	1	—	—	—
DEPRECIATION						
Year ended December 31, 1969	1,223	566	1,789	672	550	1,222
Year ended December 31, 1970	—	13	13	—	3	3
Year ended December 31, 1971	—	23	23	—	2	2
Three months ended March 31, 1972 ..	—	6	6	—	—	—
TAXES						
Payroll						
Year ended December 31, 1969	466	122	588	447	50	497
Year ended December 31, 1970	—	80	80	—	31	31
Year ended December 31, 1971	7	50	57	—	8	8
Three months ended March 31, 1972 ..	2	13	15	—	1	1
Property						
Year ended December 31, 1969	254	189	443	191	188	379
Year ended December 31, 1970	—	8	8	—	1	1
Year ended December 31, 1971	—	4	4	—	—	—
Three months ended March 31, 1972 ..	—	—	—	—	—	—
Franchise and Other						
Year ended December 31, 1969	—	46	46	—	29	29
Year ended December 31, 1970	—	24	24	—	10	10
Year ended December 31, 1971	—	6	6	—	6	6
Three months ended March 31, 1972 ..	—	—	—	—	—	—
RENT						
Year ended December 31, 1969	124	523	647	92	219	311
Year ended December 31, 1970	—	333	333	—	42	42
Year ended December 31, 1971	—	180	180	—	36	36
Three months ended March 31, 1972 ..	—	38	38	—	2	2
ROYALTIES						
Year ended December 31, 1969	—	—	—	—	—	—
Year ended December 31, 1970	—	—	—	—	—	—
Year ended December 31, 1971	—	—	—	—	—	—
Three months ended March 31, 1972 ..	—	—	—	—	—	—
MANAGEMENT FEES						
Year ended December 31, 1969	—	183	183	—	—	—
Year ended December 31, 1970	—	23	23	—	—	—
Year ended December 31, 1971	—	50	50	—	—	—
Three months ended March 31, 1972 ..	—	13	13	—	—	—

(18) Plan of Recapitalization and Acquisition.

The Board of Directors approved in January, 1972 a plan of recapitalization whereunder the 6% Subordinated Income Debentures, due 1986, the \$4.00 Dividend Preferred stock, the \$1.60 Dividend Preferred stock and the old common stock will be exchanged, reclassified and converted into new common stock. Part of the plan is also the acquisition of Review Publishing Co., Inc. for new common stock. (See Note 9 as to business with Review). In addition Curtis has elected, as part of the plan, to exercise its option to acquire \$1,030,000 of 6% Subordinated Income Debentures from Mr. Beurt R. SerVaas, President of Curtis and Review, at his cost of \$82,400, plus interest from the respective dates on which he purchased the debentures. If the plan is not adopted by the required number of shareholders and debenture holders none of the above events will take place.

(19) Subsequent Non-receipt of Installment Payment Due.

The quarterly installment of \$105,000 due July 1, 1972, from Penntech Papers, Inc. (see "Recent Developments—Disposition of Assets—Paper Mill") has not been paid.

REPORT OF INDEPENDENT ACCOUNTANTS

391a

SerVaas, Inc.
Indianapolis, Indiana

We have examined the consolidated balance sheet of Review Publishing Co., Inc. (a wholly-owned subsidiary of SerVaas, Inc.) and subsidiary as of July 31, 1971, and the related statements of consolidated operations and retained-earnings deficit for the four years and nine months then ended, and changes in consolidated financial position for the three years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of operations and retained-earnings deficit and changes in financial position present fairly the consolidated financial position of Review Publishing Co., Inc. and subsidiary at July 31, 1971, and the consolidated results of their operations for the four years and nine months then ended, and changes in consolidated financial position for the three years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

ERNST & ERNST

Indianapolis, Indiana
November 2, 1971, except as to the last sentence of
Note F for which the date is March 24, 1972.

REVIEW PUBLISHING CO., INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET

392a

ASSETS	March 31, 1972	July 31, 1971
	(Unaudited)	
CURRENT ASSETS		
Cash	\$ 62,174	\$ 84,978
Trade accounts receivable, less allowance of \$5,000	164,444	160,480
Inventory — at cost	6,178	1,943
Prepaid expenses	140,307	85,633
TOTAL CURRENT ASSETS	373,103	333,034
OTHER ASSETS		
Notes and accounts receivable from affiliates	68,903	109,887
Publishing rights and goodwill — at cost, less amortization — Note B	114,442	116,856
Sundry	1,157	1,163
TOTAL OTHER ASSETS	184,502	227,906
PROPERTY AND EQUIPMENT—on the basis of cost—Notes C and D		
Land	- 0 -	11,472
Buildings	- 0 -	83,907
Leasehold improvements	7,289	7,289
Equipment	151,454	97,861
Allowances for depreciation (deduction)	(46,444)	(78,614)
TOTAL PROPERTY AND EQUIPMENT	112,299	121,915
	<u>\$669,904</u>	<u>\$682,855</u>

See notes to consolidated financial statements.

REVIEW PUBLISHING CO., INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET

393a

LIABILITIES

	March 31, 1972 (Unaudited)	July 31, 1971
CURRENT LIABILITIES		
Notes payable to bank	\$100,000	\$ - 0 -
Trade accounts payable	148,579	202,134
Accrued salaries and bonuses	- 0 -	3,406
Payroll taxes and amounts withheld from payrolls	3,208	2,059
Accrued gross income tax, property tax, and interest	10,184	7,173
Customer advances	25,000	- 0 -
Payments due within one year on long-term debt	131,147	28,799
TOTAL CURRENT LIABILITIES	418,118	243,571
LONG-TERM DEBT — less portion classified as a current liability — Note D	84,647	187,850
UNEARNED SUBSCRIPTION INCOME net of deferred commission expenses—Note E	564,966	569,251
SHAREHOLDER'S EQUITY (DEFICIT)		
Common Stock — par value \$10.00 a share: Authorized 30,000 shares; issued and outstanding 100 shares — Notes D and G	1,000	1,000
Additional paid-in capital—Note D	17,618	36,326
Retained-earnings deficit (deduction)	(416,445)	(355,143)
TOTAL SHAREHOLDER'S EQUITY (DEFICIT)	(397,827)	(317,817)
	<u>\$669,904</u>	<u>\$682,855</u>

See notes to consolidated financial statements.

REVIEW PUBLISHING CO., INC. AND SUBSIDIARY
STATEMENT OF CONSOLIDATED RETAINED-EARNINGS DEFICIT

394a

	Eight Months Ended March 31, 1972 (Unaudited)	Year Ended July 31,				Nine Months Ended July 31, 1967
		1971	1970	1969	1968	
Retained-earnings deficit at beginning of period	\$(355,143)	\$(347,477)	\$(296,274)	\$(227,191)	\$(139,961)	\$(122,005)
Net income (loss)	(61,302)	(7,666)	(51,203)	(69,083)	(87,230)	(17,956)
Retained-Earnings Deficit at End of Period .	<u>\$(416,445)</u>	<u>\$(355,143)</u>	<u>\$(347,477)</u>	<u>\$(296,274)</u>	<u>\$(227,191)</u>	<u>\$(139,961)</u>

See notes to consolidated financial statements.

REVIEW PUBLISHING CO., INC. AND SUBSIDIARY
STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

395a

	Eight Months Ended March 31, 1972 (Unaudited)	Year Ended July 31,		
		1971	1970	1969
SOURCES OF WORKING CAPITAL				
From operations:				
Net income (loss)	\$ (61,302)	\$ (7,666)	\$ (51,203)	\$ (69,083)
Noncash charges to income for:				
Provision for depreciation	12,165	15,664	12,772	10,827
Amortization of publishing rights and goodwill	2,414	1,207	-0-	-0-
Working Capital Provided from (Used In) Operations	(46,723)	9,205	(38,431)	(58,256)
Net amount of non-current assets and liabilities (\$18,708) distributed to parent in March 1972.	-0-	-0-	-0-	-0-
Increase in unearned income	-0-	76,050	151,492	88,206
Long-term borrowings	49,712	7,000	20,317	-0-
Decrease in notes and accounts receivable from affiliates	40,984	-0-	-0-	-0-
Decrease in sundry other assets	-0-	-0-	-0-	118
Long-term debt arising in purchase of business	-0-	21,489	-0-	-0-
	43,973	113,744	133,378	30,068
USE OF WORKING CAPITAL				
Additions to property and equipment	53,593	7,819	39,590	10,065
Acquisition of publishing rights and goodwill	-0-	36,203	-0-	-0-
Increase in notes and accounts receivable from affiliates ...	-0-	56,613	17,751	6,624
Payments and transfers to current liabilities of long-term debt	120,573	24,799	21,367	17,416
Decrease in unearned income	4,285	-0-	-0-	-0-
Increase in sundry other assets	-0-	-0-	291	-0-
Decrease in amount due to affiliate	-0-	-0-	2,500	7,500
	178,451	125,434	81,499	41,605
Increase (Decrease) in Working Capital	\$(134,478)	\$(11,690)	\$ 51,879	\$(11,537)
INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENT				
Cash	\$ (22,804)	\$ 18,876	\$ 38,972	\$(53,602)
Trade accounts receivable	3,964	61,171	39,779	3,304
Inventory	4,235	(2,678)	3,688	(4,113)
Prepaid expenses	54,674	39,809	(2,201)	39,704
Notes payable to bank	(100,000)	-0-	-0-	-0-
Trade accounts payable	53,555	(133,387)	(24,776)	5,549
Accrued salaries and bonuses	3,406	8,616	3,346	(123)
Payroll taxes and amounts withheld from payrolls	(1,149)	6,363	(4,075)	(1,433)
Accrued taxes and interest	(3,011)	(1,883)	238	29
Customer advances	(25,000)	-0-	-0-	-0-
Current maturities on long-term debt	(102,348)	(8,577)	(3,092)	(852)
Increase (Decrease) in Working Capital	\$(134,478)	\$(11,690)	\$ 51,879	\$(11,537)

See notes to consolidated financial statements.

REVIEW PUBLISHING CO., INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1972 (Unaudited) and July 31, 1971 (Audited)

396a

Note A—Acquisition and Principles of Consolidation.

On March 19, 1971, the Company acquired all of the outstanding capital stock of Indiana Business Magazine, Inc. for cash of \$10,900 and notes payable of \$21,489.

The consolidated financial statements include the accounts of this wholly-owned subsidiary since the date of acquisition and after elimination of intercompany transactions. The Company uses the equity method of accounting for its investment in this subsidiary. The results of operations of this subsidiary prior to August 1, 1971, were not significant.

Note B—Publishing Rights and Goodwill.

Publishing rights and goodwill include amounts paid to stockholders and creditors of predecessor companies in excess of the amounts ascribed to tangible assets of the acquired businesses. The cost of publishing rights and goodwill acquired prior to July 31, 1970, is not being amortized; however, costs of establishing and rehabilitating publications have been charged to income as they have been incurred.

The cost of publishing rights and goodwill acquired in connection with the acquisition described in Note A above amounted to \$36,202, and is being amortized by the straight-line method over a ten-year period. Amortization for the year ended July 31, 1971, amounted to \$1,207 and for the eight months ended March 31, 1972, was \$2,414.

Note C—Property and Equipment.

For financial reporting purposes, the Company provides for depreciation and obsolescence of property and equipment by annual charges to income calculated to amortize, on a straight-line basis, the gross carrying amounts of the depreciable assets within the estimated useful lives of the various classes of assets. The range of principal annual rates used in computing depreciation follows:

	<u>Range</u>
Buildings	62½%
Leasehold improvements	62½%
Equipment	10%-25%

Expenditures for maintenance and repairs are charged to income when incurred. Expenditures for betterments and major renewals are capitalized. The carrying amounts of major assets sold, retired, or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in income.

397a

REVIEW PUBLISHING CO., INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 31, 1972 (Unaudited) and July 31, 1971 (Audited)

Note D—Long-Term Debt.

Long-term debt is summarized as follows:

	March 31, 1972	July 31, 1971
Mortgage note payable (6½%)—due \$383 monthly, including interest	\$ — 0 —	\$ 21,486
Real estate purchase contract payable (6%)—due \$250 monthly, including interest	— 0 —	14,453
Notes payable on purchase of publishing rights (no interest)— due \$7,200 annually—to July 17, 1973	10,800	14,400
6% convertible debentures, due \$50,000 on December 1, 1972 and January 15, 1973	100,000	100,000
Installment notes payable to bank—due \$766 monthly, including interest—to February 5, 1975	16,804	20,303
Note payable to bank (7%)—renewed on continual basis	15,000	15,000
Notes payable to individuals (5%)—due \$4,656 annually—to March 19, 1976	17,705	21,489
Equipment leasing notes—due at various dates to August 1, 1976 ..	48,485	2,518
Other	7,000	7,000
	215,794	216,649
Less payments due within one year	131,147	28,799
Totals	<u>\$ 84,647</u>	<u>\$187,850</u>

The land and buildings owned by the Company are subject to the real estate contract and mortgage note payable.

The 6% convertible debentures may be redeemed by the Company in multiples of \$1,000 at any time for face value plus accrued interest. The convertible feature, which provided the holder the option of converting the debentures into shares of Common Stock equal to 10% of the issued and outstanding shares at the date of conversion, was waived by the debenture holder by agreement dated March 23, 1972.

On March 10, 1972, the Company distributed land and buildings with a carrying value of \$51,044 and other assets with a carrying value of \$6 less the related mortgage loan and real estate purchase contract debt totaling \$32,342 to its parent, SerVaas, Inc.

Based on the March 31, 1972, balances, the aggregate annual principal payments on long-term debt for the next five years are approximately as follows: 1973—\$131,000; 1974—\$22,000; 1975—\$18,000; 1976—\$16,000; and 1977—\$2,000.

Note E—Unearned Magazine Subscription Income.

Revenues from subscriptions sold are deferred in the accounts and are taken into income proportionately over the lives of such subscriptions. Commission expenses of these subscriptions are also deferred and deducted from related income over the years in which the subscriptions are fulfilled. The net amounts of \$569,251 and \$564,966 at July 31, 1971 and March 31, 1972 respectively are comprised of \$2,381,778 and \$2,221,806 of unearned subscription revenue less \$1,812,527 and \$1,656,840 of related subscription commission expenses.

REVIEW PUBLISHING CO., INC. AND SUBSIDIARY

398a

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 1972 (Unaudited) and July 31, 1971 (Audited)

Note F—Management Agreement.

On October 13, 1970, the Company entered into an agreement with The Curtis Publishing Company to provide management services in connection with the publication of certain magazines of Curtis for an annual fee of \$50,000. This agreement extends for a three-year period ending June 30, 1973, and contains a renewal option under which the Company may elect to renew the agreement for an additional three-year period ending June 30, 1976, if these magazines show an operating profit during the last full year of the original term. On February 11, 1971, this agreement was amended to provide management services to additional magazines of Curtis and to provide certain additional services.

The agreement, as amended, requires that any charges by the Company other than those specifically provided for must be approved by the Board of Directors of Curtis. Total charges to Curtis for services performed by the Company during the year ended July 31, 1971, and the eight months ended March 31, 1972 were as follows:

	Eight Months Ended March 31, 1972	Year Ended July 31, 1971
Management and fulfillment fees	\$108,333	\$160,356
Commission on list rentals	11,367	19,220
Reimbursement of expenses	102,070	83,124
	<u>\$221,770</u>	<u>\$262,700</u>

Charges of approximately \$39,000 relating to the year ended July 31, 1971, which were subject to approval of the Board of Directors of Curtis were approved on March 24, 1972.

Note G—Common Stock and Additional Paid-in Capital.

There have been no changes in the Common Stock and the additional capital accounts for the three years ended July 31, 1971. The distribution described in Note D, amounting to \$18,708, has been charged to additional paid-in capital during the eight months ended March 31, 1972. All of the outstanding shares of Common Stock are owned by SerVaas, Inc.

Note H—Supplementary Profit and Loss Information.

	Eight Months Ended March 31,	Year Ended July 31,		
	1972	1971	1970	1969
Depreciation	\$12,165	\$15,664	\$12,772	\$10,827
Taxes:				
Payroll	\$17,373	\$29,367	\$21,905	\$14,846
State gross income	4,629	6,935	5,101	3,953
Property	2,373	5,607	4,705	2,941
Rents	\$54,909	\$76,031	\$54,582	\$40,118

All amounts shown were charged to selling, administrative and general expenses. There were no management or service contract fees, maintenance and repairs, or royalties of a material nature.

Operations of the Company are conducted principally in premises leased from an affiliated company at rental based upon the building expenses of the lessor and the portion of leased premises occupied by the Company.

AMENDED AND RESTATED ARTICLES
OF
THE CURTIS PUBLISHING COMPANY
(Italics indicate changes)

First. The name of the Company is

THE CURTIS PUBLISHING COMPANY

Second. The location and post office address of its registered office in this Commonwealth is

1701 The Fidelity Building
123 South Broad Street
Philadelphia, Pennsylvania 19109

Third. The purposes of the Company are to engage, as principal or agent, alone or with others, itself or through subsidiary or affiliated companies, in (i) the publishing and distribution of magazines, periodicals, books, newspapers, artistic material and any other matter capable of publication, (ii) printing, (iii) the prosecution and improvement of the business and arts of communication including the creation, construction, installation, servicing and operation of communications systems of every type and kind, throughout the world and interspace and the sending and receiving of communications of every nature and kind, (iv) the purchase, sale, leasing, merchandising and distribution of articles of commerce of every nature and kind, (v) the creation, purchase, sale and distribution of advertising material and services of every nature and kind, (vi) supply business management services, conducting surveys and investigations, analyzing and interpreting information and materials of every nature and kind and buying, selling, leasing and generally dealing in equipment of every nature useful in business management and data processing, (vii) the development, exploitation, sale and leasing, of timber and mineral resources of every nature and kind, (viii) the manufacture, production, development, publishing, processing, purchase, sale, leasing distribution of and generally dealing in and with tangible and intangible products, raw materials and services useful in and in conjunction with the foregoing business activities, (ix) investing its funds in the stock, notes, bonds and securities of manufacturing, sales, processing, communications, service, insurance and investment businesses of every nature and kind.

Fourth. The Company shall exist perpetually.

Fifth. The aggregate number of shares which the corporation shall have authority to issue is 8,000,000 shares of Common Stock, no par value, but with a stated value of ten cents per share.

Sixth. The shareholders of the corporation shall have the right to cumulate their votes for the election of directors of the corporation.

Seventh. These articles of incorporation may be amended in the manner now or hereafter prescribed by statute, and all rights conferred upon shareholders herein are granted subject to such reservation.

AGREEMENT AND PLAN OF REORGANIZATION

AGREEMENT AND PLAN OF REORGANIZATION dated as of July 1, 1972, between REVIEW PUBLISHING CO., INC., an Indiana corporation (the Company), and THE CURTIS PUBLISHING COMPANY, a Pennsylvania corporation (the Buyer).

The Company and the Buyer agree as follows with respect to the sale and transfer by the Company to the Buyer of the assets of the Company, the assumption by the Buyer of the liabilities of the Company and the issuance to the Company by the Buyer of 670,046 shares of Common Stock, no par value, of the Buyer.

1. *Exchange of Assets for Stock.* At the Closing hereinafter provided for, the Company will transfer to the Buyer all of the Company's properties, tangible and intangible, wherever located, except only as otherwise expressly provided herein, and in exchange therefor the Buyer will (a) deliver to the Company 670,046 shares of the Buyer's Common Stock, no par value, and (b) assume the liabilities of the Company to the extent provided herein.

2. *Consummation of Exchange; Closing.* The Closing under this Agreement shall take place at the office of Messrs. Morgan, Lewis & Bockius, 2107 The Fidelity Building, Philadelphia, Pennsylvania, at 11:00 A.M., local Philadelphia time, on September 21, 1972, or at such other time and place as may be agreed upon in writing by the Company and the Buyer.

3. *Transfer of the Company's Assets to the Buyer.* At the Closing the Company will sell, assign, transfer and convey to the Buyer all of the Company's properties, assets, business, goodwill, and rights of every kind and description, real and personal, tangible and intangible, wherever situated and whether or not reflected on its consolidated balance sheet as at March 31, 1972, hereinafter mentioned (including all rights to the use of the name "Review Publishing Co., Inc.") except for the Transaction Expense Account provided for in Section 4 hereof.

4. *Transaction Expense Account.* The Company will retain such amount of cash as the Company and the Buyer shall agree in writing may be required to pay all unpaid expenses then incurred or to be incurred by the Company in doing any of the acts contemplated by this Agreement. If the amount of cash so retained (the Transaction Expense Account) is in excess of the amount required to pay the foregoing expenses, the Company will at the Buyer's request deliver the balance remaining to the Buyer, provided, however, that the Buyer will return to the Company any portion thereof which the Company later determines is necessary to pay such expenses. The persons authorized to draw upon the Transaction Expense Account will be designated by the Board of Directors of the Company, but withdrawals will be made only with the Buyer's prior written approval.

5. *Assumption by the Buyer.* At the Closing the Buyer will assume and agree to perform and pay when due all obligations and liabilities of the Company in existence at the Closing date which were reflected or reserved against on the Company's consolidated balance sheet as at March 31, 1972, except:

(a) Any obligations or liabilities of the Company intended to be paid and discharged out of the Transaction Expense Account;

(b) Any obligations or liabilities of the Company, or costs and expenses in connection therewith, to the extent that such obligations or liabilities shall or may be satisfied or paid by an insurer or insurers under a policy or policies of insurance issued to the Company, unless such insurer or insurers agree that such assumption by the Buyer shall not create or give rise by right of subrogation to any claim or right by such insurer or insurers against the Buyer;

(c) Any obligations or liabilities of the Company to its shareholder as such;

(d) Any obligations or liabilities of the Company arising or incurred after the Closing, except any which are asserted in respect of the period prior to the Closing; or

401a

(e) Any tax imposed upon the Company by reason of the sale of its assets and business.

6. *Representations and Warranties by the Company.* The Company hereby represents and warrants to the Buyer as follows:

(a) The Company is duly organized, validly existing and is in good standing under the laws of the State of Indiana; has full corporate power to carry on its business as it is now being conducted and to own and operate the properties and assets now owned or operated by it; and is duly qualified to do business and is in good standing in each jurisdiction where the conduct of its business or the ownership of its property requires such qualification. The authorized capital stock of the Company consists solely of 30,000 shares of Common Stock, par value \$10.00 per share, of which 100 shares are issued and outstanding; and all such issued shares are duly authorized, validly issued, fully paid and non-assessable. There are no existing options, warrants, calls, commitments or rights of any character to purchase or otherwise acquire from the Company any of its shares; no outstanding securities of the Company which are convertible into shares of the Company except two (2) 6% \$50,000 Convertible Debentures owned by Mr. John Burkhart which are convertible into Common Stock but which conversion rights have been waived; and no options, warrants, or rights to purchase from the Company any such securities so convertible.

(b) The Company has no subsidiaries, except Indiana Business Magazine, Inc. (Magazine), which is duly organized, validly existing and is in good standing under the laws of the State of Indiana has full corporate power to carry on its business as it is now being conducted and to own and operate the properties and assets now owned or operated by it; and is duly qualified to do business and is in good standing in each jurisdiction where the conduct of its business or the ownership of its property requires such qualification. The authorized capital stock of Magazine consists solely of 30,000 shares of Common Stock, par value \$10.00 per share, of which 100 shares are issued and outstanding and are held by the Company; and all such issued shares are duly authorized validly issued, fully paid and non-assessable. There are no existing options, warrants, calls, commitments or rights of any character to purchase or otherwise acquire from Magazine any of its shares; no outstanding securities of Magazine which are convertible into shares of Magazine; and no options, warrants or rights to purchase from Magazine any such securities so convertible.

(c) The Company has delivered to the Buyer (i) copies of certified financial statements of the Company for the four years and nine months ended July 31, 1971, and (ii) an unaudited balance sheet of the Company as of March 31, 1972 (hereinafter sometimes called the "1972 Balance Sheet") and an unaudited statement of income of the Company for the eight months ended that date. Such financial statements and the 1972 Balance Sheet present fairly the financial position of the Company as at the respective dates thereof, and the statements of income for said periods present fairly the results of operations of the Company for the periods indicated, in accordance with generally accepted accounting principles consistently applied, except as otherwise indicated in such statements or the notes thereto. The Company has no liabilities or obligations which are in the aggregate material, either accrued, absolute, contingent or otherwise, except (1) to the extent set forth in the 1972 Balance Sheet or the notes thereto and not heretofore paid or discharged and (2) those incurred, consistently with past business practice, in or as a result of the normal and ordinary course of business since March 31, 1972, none of which is materially adverse.

(d) The Company has filed all required Federal income tax returns and has paid all taxes shown to be due thereby. The Company has filed with all other appropriate governmental agencies all tax returns and tax reports which are required to be filed and has paid all taxes shown to be due thereby. All such returns which relate to Federal and state income taxes have been audited and settled, and where

they have not been audited and settled, no waivers of statutes of limitations have been given. The liabilities and reserves for taxes on the 1972 Balance Sheet are sufficient for the payment of all taxes attributable to income earned prior to and including March 31, 1972, and include adequate provision for deferred taxes, including taxes on income arising from the excess of tax deductions over related book expenses, in accordance with generally accepted accounting principles.

(c) Since March 31, 1972, there has not been (i) any material adverse change in the financial condition or in the operations, business or property of the Company, (ii) any damage, destruction or loss, whether covered by insurance or not, materially and adversely affecting the operations, business or property of the Company, (iii) any declaration, setting aside or payment of any dividend, or any distribution in respect of capital stock of the Company, or any redemption, purchase or other acquisition of any such shares of the Company, (iv) any material increase in the rate of compensation payable or to become payable by the Company to any of its officers or directors or any material increase in the amounts paid, payable or to become payable under any bonus, insurance, pension or other benefit plan, or any arrangement made for or with any such officers or directors, or (v) any labor trouble other than routine grievance matters, none of which is material.

(f) The Company has good title to all of its properties and assets, real and personal, reflected in the 1972 Balance Sheet (except properties and assets sold or otherwise disposed of since March 31, 1972, in the ordinary course of business) free and clear of all mortgages, liens, pledges, charges or encumbrances of any nature whatsoever, except (i) mortgages, pledges and other encumbrances disclosed in the 1972 Balance Sheet or the notes thereto, (ii) liens for current taxes not yet due and payable, and (iii) such imperfections of title, easements and encumbrances, if any, as are not substantial in character, amount or extent and do not materially detract from the value, or interfere with the present or proposed use, of the property subject thereto or affected thereby, or otherwise materially impair business operations. All leases pursuant to which the Company leases any substantial amount of real or personal property are in good standing, valid and effective in accordance with their respective terms, and there is not, under any of such leases, any existing default or event of default or event which with notice or lapse of time, or both, would constitute a default and in respect of which the Company has not taken adequate steps to prevent a default from occurring.

(g) The Company has delivered to the Buyer accurate lists as of the date hereof (or as of a date specified in such lists within thirty days prior to the date hereof) of the following:

(i) All real property owned or leased by the Company, with the amount of any mortgages on property owned;

(ii) All letters patent, patent applications, registered trademarks, both domestic and foreign, presently owned by the Company or used by the Company, and all patent, trademark, trade name, copyright or breach of confidence suits or claims, or notices thereof, to which the Company is a party;

(iii) All insurance policies or bonds in force with respect to the Company and, without restricting the generality of the foregoing, those covering its properties, buildings, machinery, equipment, furniture, fixtures, employees and operations;

(iv) All agreements of the Company which involve future payments by or to the Company of more than \$10,000, or which extend beyond one year from the date hereof and involve more than \$5,000, and all other material contracts not made in the ordinary course of business which are to be performed at or after the date hereof;

(v) All bonus, incentive compensation, profit sharing, retirement, pension, group insurance, death benefit or other fringe benefit plans, trust agreements or arrangements of the Company in effect, or under which any amounts remain unpaid, on the date hereof or to become effective after the date hereof;

(vi) The names and current annual salary rates of all present officers and employees of the Company whose current annual regular salary rate is \$20,000 or more, or whose aggregate compensation from the Company exceeded \$20,000 during the year ended July 31, 1971, together with any bonuses or profit sharing paid or payable to such persons for the year ended July 31, 1971, and, to the extent existing on the date hereof, to be paid to them for the year ending July 31, 1972, or at any time in the future;

(vii) All collective bargaining agreements of the Company with any labor union or other representative of employees, including local agreements, amendments, supplements, letters and memoranda of understanding of all kinds, and all employment or consulting contracts to which the Company is a party;

(viii) Each instrument defining the terms on which debt of, or guarantees aggregating more than \$5,000 by, the Company with a maturity later than December 31, 1972, or renewable to mature later than December 31, 1972, has been or may be issued;

(xi) All licenses and permits issued to the Company by any regulatory authority.

The Company has no knowledge of any default or claimed or purported or alleged default, or state of facts which with notice or lapse of time, or both, would constitute a default, in any obligation on the part of the Company to be performed under any material lease, contract, plan or other arrangement contained in or referred to in such lists.

(h) Except to the extent referred to in the 1972 Balance Sheet or the notes thereto, there is no suit, action, or legal, administrative, arbitration or other proceeding or governmental investigation, and there is no change in the zoning or building ordinances affecting the real property or leasehold interest of the Company, pending or threatened, which might materially and adversely affect the financial condition, business or property of the Company. The Company has complied with and is not in default under any laws, ordinances, requirements, regulations or orders applicable to its business.

(i) Neither the execution and delivery of this Agreement nor the consummation of the transactions provided for herein in the manner herein provided will violate any material agreement to which the Company is a party or by which it is bound or any law, order or decree or any provision of the Articles or By-Laws of the Company.

(j) The Company is not a party to any agreement or instrument or subject to any charter or other corporate restriction or any judgment, order, writ, injunction, decree, rule or regulation which materially and adversely affects or, so far as the Seller can now foresee, may in the future materially and adversely affect, its business, operations, prospects, properties, assets or condition, financial or otherwise.

(k) No representation or warranty by the Company in this Agreement nor any statement or certificate furnished or to be furnished to the Buyer pursuant hereto, or in connection with the transactions contemplated hereby, contains or will contain any untrue statement of a material fact, or omits or will omit to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading.

(l) The description of the business of the Company and the financial statements of the Company contained and to be contained (i) in the Proxy Statement for the 1972 Annual Meeting of Shareholders of the Buyer and (ii) in the Registration Statement on Form S-1 relating to the proposal recapitalization of the Buyer do not and will not contain any untrue statement of material fact and do not and will not omit to state such a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading.

7. *Representations and Warranties by the Buyer.* The Buyer represents and warrants to the Company as follows:

(a) The Buyer is duly organized, validly existing and in good standing as a corporation ^{402a} under the laws of the Commonwealth of Pennsylvania; has full corporate power to carry on its business as it is now being conducted, and to own and operate the properties and assets now owned or operated by it; and is duly qualified to do business and is in good standing in each jurisdiction where the conduct of its business or the ownership of its property requires such qualification.

(b) The authorized capital stock of the Buyer consists of 334,470 shares of Prior Preferred Stock, \$4.00 Dividend Series, no par value, all of which are outstanding; 239,418 shares of Prior Preferred Stock, \$1.60 Dividend Series, no par value, all of which are outstanding; and 8,000,000 shares of Common Stock, par value \$1 per share, of which 3,555,568 shares are issued and outstanding.

(c) The Buyer has full corporate power and authority to enter into this Agreement and at the closing will have full power and authority to issue the Buyer's Stock, which, when issued to the Company pursuant to the terms of this Agreement, will be duly authorized, validly issued, fully paid and non-assessable.

8. *Conduct of Business of the Company Pending the Closing.*

(a) The Company agrees that from the date hereof to the Closing it will not, without the prior written consent of the Buyer:

(i) Amend its Articles of Incorporation except as may be necessary to carry out this Agreement or as required by law.

(ii) Issue any capital stock or other securities or enter into any contract or commitment to issue any capital stock or other securities or issue any warrants, rights or options to any employee or otherwise.

(iii) Declare, authorize or pay any distribution or dividend of cash, property or securities to its shareholders, directly or indirectly.

(iv) Enter into any arrangement for employment, compensation or fringe benefits for any of its officers or directors or executives or institute any plan for fringe benefits.

(v) Directly or indirectly (1) merge or consolidate with any other corporation, (2) dispose of any material amount of property otherwise than in the ordinary course of business or (3) acquire or agree to acquire any business or substantially all of the stock or assets of any business.

(vi) Enter into any agreement not in the ordinary course of business.

(vii) Create, incur, assume or guarantee any indebtedness for money borrowed or create any mortgage, lien or other encumbrance on any of its property, real or personal.

(b) The Company agrees that from the date hereof to the Closing it will give to the Buyer and its accountants, engineers, counsel and other representatives full access, without unreasonably interfering with business operations, to all of the Company's properties, books, contracts, commitments and records and furnish to the Buyer all such documents and copies of documents and records and information with respect to its affairs and copies of any working papers relating to it as the Buyer shall from time to time reasonably request.

9. *Conditions.*

(a) The obligation of the Buyer to consummate the transaction provided for herein shall be subject to the following conditions:

(i) The representations and warranties set forth in Section 6 hereof shall be true as of and at the Closing and shall have been true at the date hereof, to the extent that they are not stated

therein to be true as of some other date; and the Company shall have performed all obligations required hereby to be performed by it prior to the Closing and shall have delivered to the Buyer its certificate dated the date of the Closing to such effect. 403a

(ii) Messrs. Fulmer, Burris & Byrum, Esq. shall have delivered to the Buyer their opinion, dated the date of the Closing, in form and substance satisfactory to Messrs. Morgan, Lewis & Bockius, confirming the representations contained in subsections (a), (b), (d), (f), (h), (i), and (j) of Section 6 of this Agreement and to the effect that the deeds, bills of sale, assignments and other instruments required to be executed on behalf of the Company for delivery to the Buyer at the Closing have been duly authorized by the Company and do not violate any unwaived provision of any contract or agreement binding upon the Company, have been duly executed and delivered on behalf of the Company, are legal, valid and enforceable in accordance with their respective terms, and are in proper form to convey title to the properties they purport to assign, transfer or convey.

(iii) The holders of any indebtedness of the Company, the lessors of any material real or personal property leased by the Company and any Federal, state or other regulatory agency having jurisdiction, to the extent that their consent is required by the pertinent debt or lease instruments or applicable laws or regulations for the consummation of this Agreement, shall have granted any necessary consent, and no litigation shall be pending or threatened affecting the validity of the transaction contemplated hereby.

(iv) Any and all permits, licenses or qualifications from authorities administering the securities laws or similar laws of any state or other political subdivision having jurisdiction required for the consummation of the transaction contemplated hereby, shall have been obtained, and no such permit shall contain any condition which, in the judgment of the Buyer, shall be unduly burdensome.

(v) The business or properties of the Company shall not have been, and shall not be threatened to be, materially adversely affected in any way as a result of fire, explosion, earthquake, disaster, accident, labor dispute, change in technology, obsolescence of product or service, resignation of key personnel, any action by the United States or any other governmental authority, flood, drought, embargo, riot, civil disturbance, uprising, activity of armed forces or act of God or public enemy.

(vi) The Company shall have furnished the Buyer with all information reasonably requested by the Buyer pursuant to Section 3(b) hereof.

(vii) The holders of the \$100,000 principal amount of 6% Convertible Debentures due January 15, 1973, of the Company shall have waived the right to convert said Debentures into Common Stock of the Company.

(b) The obligation of the Company to consummate the transaction provided for therein shall be subject to the following conditions:

(i) The representations and warranties set forth in Section 7 hereof shall be true as of and at the Closing and shall have been true at the date hereof, to the extent that they are not stated therein to be true as of some other date and except insofar as the description of capital stock of the Buyer is or may be affected by the proposed plan of recapitalization of the Buyer; the Buyer shall have performed all obligations required hereby to be performed by it prior to the Closing; and the Buyer shall have delivered to the Company a certificate, dated the date of the Closing and signed by its President or any Vice President and its Treasurer or its Secretary to such effect.

(ii) Messrs. Morgan, Lewis & Bockius shall have delivered to the Company their opinion, dated the date of the Closing, in form and substance satisfactory to Messrs. Fulmer, Burris & Byrum, Esq. confirming the representations of the Buyer contained in subsections (a), (b) and (c) of Section 7 of this Agreement.

404a

(c) The obligations of the Buyer and the Company to consummate the transaction provided for herein shall be subject to the condition that or prior to the Closing.

(i) The proposed plan of recapitalization of the Buyer shall have become effective.

(ii) The shares of Common Stock of the Buyer issuable to the Company pursuant to the terms hereof shall have been authorized for listing, upon official notice of issuance, upon the Philadelphia-Baltimore-Washington Stock Exchange.

10. *Restrictions on Transfer.* The Company represents, warrants and agrees that it will not sell or otherwise dispose of any of the Common Stock of the Buyer received by it pursuant to the terms hereof otherwise than in compliance with the Securities Act of 1933, and that it is acquiring and will acquire all such shares for investment and not with a view to the distribution thereof.

11. *Indemnification by Company.* The Company agrees to indemnify and hold harmless the Buyer, at all times after the date of this Agreement, against and in respect of:

(a) any and all liabilities of the Company of any nature, whether accrued, absolute, contingent or otherwise, existing at March 31, 1972, to the extent not set forth in or reflected or reserved against in full in the 1972 Balance Sheet or the notes thereto, including, without limitation, net tax deficiencies, if any, to the extent not so reflected or reserved against, accrued in respect of or measured by the Company's income for any period ending on or prior to March 31, 1972, or arising out of transactions entered into, or any state of facts existing, prior to such date;

(b) any and all liabilities of or claims against the Company arising out of:

(i) the conduct of the business of the Company between March 31, 1972 and the Closing otherwise than in the ordinary course;

(ii) any presently existing contract or commitment of the character described in subsection

(g) (iv) of Section 6 hereof and not included on the list furnished to the Buyer pursuant to said Section 6(g);

(iii) any contract or commitment entered into or made by the Company between the date hereof and the Closing, and not permitted by the provisions of subsection (a)(vi) of Section 8 hereof; and

(iv) any litigation against the Company arising out of any action or inaction by the Company prior to the Closing;

(c) any and all damage or deficiency resulting from any misrepresentation, breach of warranty or non-fulfillment of any agreement on the part of the Company under this Agreement or from any misrepresentation in or omission from any certificate or other instrument furnished or to be furnished to the Buyer hereunder; and

(d) any and all actions, suits, proceedings, demands, assessments, judgments, costs and legal and other expense incident to any of the foregoing.

The Company will pay to the Buyer an amount equal to the payment or payments made by the Buyer at any time after March 31, 1972, in respect of any liability or claim to which the foregoing indemnity relates, provided, however, that, in computing the obligation of the Company hereunder, such obligation shall be limited to the after-tax consequence to the Company of any such liability or claim.

12. *Survival of Company's Representations, etc.* All representations, warranties and agreements made by the Company in this Agreement or pursuant hereto shall survive the Closing hereunder and any investigation made by or on behalf of the Buyer prior thereto for a period of three years.

13. *Change of Name; Covenant against Liquidation, etc.* The Company agrees that at the Closing it will change its name to a name not similar to "Review Publishing Co., Inc." The Company covenants and

agrees that for a period of three years following the date of the Closing it will not sell or otherwise dispose of any of the Common Stock of the Buyer received by it pursuant to the terms hereof and will not liquidate, dissolve, or merge or consolidate with any other corporation.

405a

14. *Brokerage; Company's Expenses; etc.* The Company represents and warrants that all negotiations relative to this Agreement have been carried on by it directly with the Buyer without the intervention of any person, firm or corporation, and the Company will indemnify the Buyer and hold it harmless against and in respect of any claim for brokerage or other commissions relative to this Agreement, or to the transactions contemplated hereby, made by any person, firm or corporation claiming through the Company and also in respect of all expenses of any character incurred by the Company in connection with this Agreement or such transactions.

15. *Contents of Agreement; Parties in Interest; etc.* This Agreement sets forth the entire understanding of the parties. It shall not be changed or terminated orally. All the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the Company and the Buyer.

16. *Pennsylvania Law to Govern.* This Agreement is being delivered and is intended to be performed in the Commonwealth of Pennsylvania and shall be construed and enforced in accordance with the laws of such Commonwealth.

17. *Notices.* All notices which are required or permitted hereunder shall be sufficient if given in writing and delivered personally or by registered or certified mail, postage prepaid, as follows:

If to the Buyer, to:

The Curtis Publishing Company
1701 The Fidelity Building
Philadelphia, Pennsylvania 19109
Attention: Margaret B. Wilkinson

With a copy to:

Messrs. Morgan, Lewis & Bockius
2107 The Fidelity Building
Philadelphia, Pennsylvania 19109
Attention: Howard W. Taylor, Jr., Esq.

If to the Company, to:

Review Publishing Co., Inc.
1100 Waterway Boulevard
Indianapolis, Indiana 46202
Attention: Beurt R. SerVaas

With a copy to:

Messrs. Fulmer, Burris & Byrum
614 Union Title Building
155 East Market Street
Indianapolis, Indiana 46204
Attention: William K. Byrum, Esq.

406a

18. *Counterparts.* This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original instrument, but all such counterparts together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

(Corporate Seal)

Review Publishing Co., Inc.

ATTEST

By
President

.....
Secretary

(Corporate Seal)

THE CURTIS PUBLISHING COMPANY

ATTEST

By
Vice President

.....
Secretary

SECTIONS 810 AND 515 OF THE PENNSYLVANIA BUSINESS CORPORATION LAW RELATING TO RIGHTS OF HOLDERS OF PRIOR PREFERRED STOCK OF THE CURTIS PUBLISHING COMPANY DISSENTING FROM THE PROPOSED PLAN OF RECAPITALIZATION

Section 810. Rights of Dissenting Shareholders Upon Certain Amendments.

If any amendment to the articles shall (1) cancel or otherwise affect the right of holders of the shares of any class outstanding on or before January 1, 1969, to receive dividends which have accrued but have not been declared, or (2) eliminate cumulative voting for directors of a business corporation, the holder of any outstanding shares the accrued dividends or cumulative voting rights of which are so cancelled, affected or eliminated, who shall object to such amendment and comply with section 515 of this act, shall be entitled to the rights and remedies of dissenting shareholders therein provided. There shall be included in or enclosed with the notice of a meeting of shareholders called to consider an amendment to which this section applies a copy of this section and of section 515 of this act.

Section 515. Rights of Dissenting Shareholders. A. If any shareholder of a business corporation objects to any proposed plan of action of such corporation authorized under any section of this act, and such section provides that such shareholders shall be entitled to the rights and remedies of dissenting shareholders, such shareholders shall be entitled to the following rights and remedies:

B. If any shareholder of a business corporation shall file with such corporation, prior to the commencement of the voting by shareholders upon the plan at the meeting of shareholders at which a plan is submitted to a vote, a written objection to such plan, and shall not vote in favor thereof, and such shareholder, within twenty days after the date on which the vote approving the plan was taken, shall also make written demand on the corporation, or the surviving or new corporation resulting from the plan, for the payment of the fair value of his shares, such corporation shall pay to such shareholder the fair value of his shares as of the day prior to the date on which the vote was taken without regard to any depreciation or appreciation thereof in consequence of the plan upon surrender of the share certificate or certificates representing his shares. The demand of the shareholder shall state the number and class and series, if any, of the shares owned by him with respect to which he dissents. A dissenting shareholder may dissent as to all or less than all of those shares registered in his name of which he is not the beneficial owner, but there may not be dissent with respect to some but less than all shares of the same class or series owned by any given beneficial owner of shares whether or not the shares so owned by him are registered in his name. Unless a shareholder files such written objection and also makes such demand within the twenty-day period, he shall be conclusively presumed to have consented to the plan, and shall be bound by the terms thereof. Any shareholder making such demand shall thereafter be entitled only to payment as in his section provided and shall not be entitled to vote or to exercise any other rights of a shareholder as to the shares with respect to which he dissents.

C. No such demand may be withdrawn unless the corporation shall consent thereto. If, however, such demand shall be withdrawn upon consent, or if the proposed plan shall be abandoned or rescinded, or the shareholders shall revoke the authority to effect such plan, or if no demand or petition for the determination of fair value by a court shall have been made or filed within the time provided in this section, or if a court of competent jurisdiction shall determine that such shareholder is not entitled to the relief provided by this section, then the right of such shareholder to be paid the fair value of his shares shall cease and his status as a shareholder shall be restored retroactively without prejudice to any corporate proceedings which may have been taken during the interim.

D. Within thirty days after such plan became effective the corporation or, in the case of a merger or consolidation the surviving or new corporation, domestic or foreign, shall give written notice thereof to each dissenting shareholder who has made demand as herein provided, and shall make a written offer to each such

shareholder to pay for such shares at a specified price deemed by such corporation to be the fair value thereof. Such notice and offer shall be accompanied by a balance sheet of the corporation as of the latest available date and not more than twelve months prior to the making of such offer and a profit and loss statement of such corporation for the twelve months' period ended on the date of such balance sheet.

E. If within sixty days after the date on which such plan became effective, the fair value of such shares is agreed upon between any such dissenting shareholder and the corporation, payment therefor shall be made within ninety days after the date on which such plan became effective, upon surrender of the certificate or certificates representing such shares. Upon payment of the agreed value, the dissenting shareholder shall cease to have any interest in such shares.

F. A dissenting shareholder who is unable to agree with the corporation on the fair value of his shares may demand proceedings to value his shares at any time after sixty days and within ninety days after the date on which the plan became effective. Within thirty days after receipt of any such written demand, the corporation shall, or at its election at any time after sixty days and within ninety days after the effective date the corporation may file a petition in the court of common pleas in the county in this State where the registered office of the corporation is located, praying that the fair value of such shares be found and determined. If in the case of a merger or consolidation, the surviving or new corporation is a foreign corporation without a registered office in this State, such petition shall be filed in the county where the registered office of the domestic corporation was last located, which county shall be deemed to be the county where the cause of action arose and all process shall be served upon such foreign corporation as provided in section 1011 of this act. If the corporation has not instituted the proceeding as herein provided, any dissenting shareholder may do so in the name of the corporation at any time within thirty days after the expiration of such ninety day period. All dissenting shareholders, wherever residing, shall be made by the corporation parties to the proceeding as an action against their shares quasi in rem. A copy of the petition shall be served on each dissenting shareholder who is a resident of this State and shall be served personally or by registered or certified mail on each dissenting shareholder who is a nonresident. The jurisdiction of the court shall be plenary and exclusive. All shareholders who are parties to the proceeding shall be entitled to judgment against the corporation for the amount of the fair value of their shares as of the day prior to the date on which the vote was taken without regard to any depreciation or appreciation thereof in consequence of the plan. The court may, if it so elects, appoint one or more persons as appraisers to receive evidence and recommend a decision on the question of fair value. The appraisers shall have such power and authority as shall be specified in the order of their appointment or an amendment thereof. The judgment shall be payable only upon and concurrently with the surrender to the corporation of the certificate or certificates representing such shares. Upon payment of the judgment, the dissenting shareholder shall cease to have any interest in such shares.

G. The judgment shall make due allowance for any distribution to the shareholders between the day before the date of the vote on the plan and the date of their demand for the fair value of their shares and for such interest as the court may find to be fair and equitable in all the circumstances.

H. The costs and expenses of any such proceeding shall be determined by the court and shall be assessed against the corporation, but all or any part of such costs and expenses may be apportioned and assessed as the court may deem equitable against any or all of the dissenting shareholders who are parties to the proceeding to whom the corporation shall have made an offer to pay for the shares if the court shall find that the action of such shareholders in failing to accept such offer was arbitrary or vexatious or not in good faith. Such expenses shall include reasonable compensation for and reasonable expenses of the appraisers but shall exclude the fees and expenses of counsel for and experts employed by any party, but if the fair value of the shares as determined materially exceeds the amount which the corporation offered to pay therefor, or if no offer was made, the court in its discretion may award to any shareholder who is a party to the proceeding such sum as the court may determine to be reasonable compensation to any expert or experts employed by the shareholder in the proceeding.

I. Within twenty days after demanding payment for his shares, each shareholder demanding payment shall submit the certificate or certificates representing his shares to the corporation for notation thereon that

such demand has been made. His failure to do so shall at the option of the corporation terminate his rights under this section unless a court of competent jurisdiction for good and sufficient cause shown shall otherwise direct. If shares represented by a certificate on which notation has been so made shall be transferred, each new certificate issued therefor shall bear similar notation, together with the name of the original dissenting holder of such shares and a transferee of such shares shall acquire by such transfer no rights in the corporation other than those which the original dissenting shareholder had after making demand for payment of the fair value thereof.

409a

J. Shares acquired by a corporation, pursuant to payment of the agreed value therefor, or to payment of the judgement entered therefor as in this section provided, may be held and disposed of by such corporation as in the case of other treasury shares, except that in the case of a merger or consolidation they may be held and disposed of as the plan of merger or consolidation may otherwise provide.

K. Any shareholder, who desires to object to, or to dissent from, any proposed plan authorized under any section of this act, and where this act provides that shareholders so objecting or dissenting shall have the rights and remedies herein provided, shall be limited to the rights and remedies prescribed under this section, and the rights and remedies prescribed by this section shall be exclusive.

PLAINTIFF'S EXHIBIT 11 - DEFENDANT'S ANNUAL REPORT

THE
CURTIS
PUBLISHING
COMPANY



Annual Report 1973

THE
CURTIS
PUBLISHING
COMPANY
and Subsidiaries



Annual Report 1973

REGISTERED OFFICE:

The Fidelity Building
Philadelphia, Pennsylvania 19109

EXECUTIVE AND GENERAL OFFICES:

The Saturday Evening Post Company
1100 Waterway Boulevard
Indianapolis, Indiana 46202

INTERNATIONAL REPORTS, INC.

200 Park Avenue South
New York, New York 10003

CURTIS EQUIPMENT CORP.

1100 Waterway Boulevard
Indianapolis, Indiana 46202

1 East First Street
Reno, Nevada 89505

Table of Contents

Financial Highlights	Inside Front
Management Report	1
Auditors' Report	3
Consolidated Balance Sheet	4
Consolidated Statement of Income	5
Consolidated Statement of Changes in Shareholders' Deficit	6
Consolidated Statement of Changes in Financial Position	7
Notes to Consolidated Financial Statements	8
Five Year Financial Review	11
Directory	12

FINANCIAL HIGHLIGHTS

	Year ended December 31,	
	1973	1972
Net revenues	\$ 9,052,000	\$ 6,134,000
Net income	\$ 111,000	\$ 41,000
Net income per share	\$.05	\$.02
Shareholders deficit	\$ (\$5,765,000)	\$ (6,081,000)



THE CURTIS PUBLISHING COMPANY

1100 Waterway Boulevard
INDIANAPOLIS, INDIANA 46202

Dear Shareholders:

It is again our pleasure to report on a year of substantial progress in restoring The Curtis Publishing Company to prominence as a member of the publishing industry.

As indicated by the financial highlights shown on the facing page, results from operations were improved from the prior year. These signs of corporate well being are further borne out by the financial statements contained in this annual report. The statements should be reviewed in detail for a full understanding of the affairs of the Company.

Financial Review

The very substantial rise in net revenues from last year resulted from greater advertising and subscription revenue. The greater advertising revenue is a reflection primarily of operations of *The Saturday Evening Post* with two additional issues in 1973 and greater recognition of that magazine as an advertising medium. The subscription revenue betterment is the result of the *Post* operations as well as a full year of operations of the properties acquired from Review Publishing Company in 1972.

The increase in net income is principally the result of the *Post* operations and a further decrease in legal expenses as we continue to dispense with the remaining legal actions against the Company.

Our greatest single financial need is for working capital. Efforts to accumulate such capital through operations have been hampered by the need to pay liabilities which arose from operations and other matters prior to the time this management assumed responsibility for affairs for the Company. Our need to pay this type of liability, although becoming less with the passage of time, will continue to take part of our working capital in 1974.

We are currently concentrating on methods to raise working capital by means other than operations. One source would be through borrowings; however, the financial strength of the Company is such at this time that it could not support further loans. It is contemplated that the conclusion of an arrangement on our mineral interest as discussed below may allow us to

negotiate a loan to liquidate long term indebtedness now coming due.

There are \$1,290,000 in debentures which remain outstanding after the recapitalization in 1972. The required interest accrual on the debentures is \$77,400 per year. The payment of the interest is required only in the event that there are requisite earnings as defined in the Indenture. In the opinion of outside counsel, reserve and settlement adjustments are not income for this purpose. As a result, it is our intention not to pay the interest installments during 1974. The legal affect of the debentures and their influence on our operations will be of prime concern as we continue to grow.

Magazine Operations

1973 represented a year of major progress in returning *The Saturday Evening Post* to its former position as a substantial and influential magazine. The number of *Post* subscribers was substantially increased during the year and major promotion efforts near year end will contribute to further increases in 1974. The acceleration in frequency from six issues in 1973 to nine in 1974 is indicative of the good reader acceptance as more people become aware of the return of the *Post*. That acceptance in turn results in greater advertiser interest.

Jack and Jill and the other youth publications continue to show improvements despite the substantially increased costs resulting from inflationary pressures.

Holiday magazine, although stabilized, represents a unique challenge. We have under active consideration several alternatives which will permit us to recognize more of the potential of this fine publishing property. During 1974 we plan to conclude a joint venture with another corporation in the leisure business utilizing *Holiday* as a major media, but at this time it is too early to anticipate the details of the transaction.

Our trade and special magazines on the whole are healthy and we anticipate 1974 to be another good year for all of our magazines.

Personnel

The success or failure of any business is ultimately

dependent upon the abilities of its people. This is particularly true in a business such as publishing in which our stock in trade is the ability to create a unique product each issue.

Beginning at a point several years ago, when Curtis was literally without any staff, we have built an organization which is not only capable of carrying on current day to day operations, but which can also be the basis for continued growth. This requires the creative people to produce the product as well as the business people to assure that it is done economically and profitably. 1973 was a year of substantial progress in attracting and holding these essential persons.

New Ventures

As we announced during 1973, we have completed the acquisition of International Reports, Inc., a New York City headquartered publisher of financial reports and intelligence for a quarter of a century under the leadership of Mr. Guenter Reimann, chief editor and executive officer and a well recognized authority in the field. The integration of this operation is progressing satisfactorily and we envision it to be the foundation for other ventures into financial publishing and related areas.

Curtis Equipment Corp. was formed during the year as a wholly owned subsidiary to participate in leasing transactions. It did participate in very significant data processing equipment leasing transactions. The nature of the transactions makes the financial benefit to Curtis dependent upon future events and values. For that reason the results will not be fully recognized for financial purposes until such time as they are known. The transactions do, however, result in taxable income which is offset against the carry forward net operating losses. We anticipate that there may be substantial financial benefits from these transactions in the future.

We are actively pursuing projects which would result in one or more of our magazines being the basis for television shows. It is too early to anticipate the outcome, but it will continue to be an area of major interest to us as a possible new business area.

We continue to pursue actively merger or acquisition prospects which could contribute to the sound growth of the company.

Mineral Interests

Curtis is the owner of a mineral royalty interest in the

income from mining on certain lands in the Province of Ontario, Canada. The lands which are subject to the interest are owned by a subsidiary of Texasgulf, Inc., and are located generally north and east of Kidd Township in which the renowned Kidd Creek Mine is located. None of the lands are in Kidd Township. The total acreage covered by the agreement is approximately 85,000. Under the agreement Curtis is entitled to a percentage of "net profits" as defined by the agreement from the production of minerals on the subject land, if and when earned. The percentage is 50% on lands located in six townships and 10% in nine other townships. Curtis does not have the right to explore or to participate in the management of the properties. No value is attributed to the mineral interest in the records of the Company and it has never produced any income for Curtis. Texasgulf has and is exploring on the lands and they have informed us that they have not discovered any minerals of commercial value to date. We have no reason to doubt the veracity of that statement. It has been our announced intention to capitalize this interest as a source for working capital. The highly speculative nature of the interest makes it very difficult to determine its value. In an attempt to broaden our knowledge of this property through professional geological advice, we retained the firm of Derry, Michener & Booth, eminent Canadian mining consultants to counsel us in this matter. Based on their knowledge of the mining industry, geology of the subject area and an examination of the records of Texasgulf, Derry, Michener & Booth tentatively estimate the value of the Curtis interest to be no less than \$2,000,000. The examination by Derry, Michener & Booth did not disclose the existence of any minerals in commercial quantities on the subject lands.

The rationale they used to support their estimated value was the cost of assembling a similar large tract of land and the geographical relationship to the Kidd Creek Mine.

We have continued our policy of pursuing any inquiry about this mineral interest. Currently we have under active consideration a proposal to grant to Texasgulf, Inc., an option for five years to purchase the interest. We also have a proposal which, assuming Curtis could through agreement with Texasgulf convert its interest from a passive interest to a working interest, would require the third party to expend substantial sums for exploration in exchange for a share of Curtis' interest. There have been other ideas advanced to alter or dis-

pose of the interest. None of these, however, has reached the definitive state. It is our intention to pursue this matter in the best interest of the Company, its stockholders and creditors.

Shortages and Costs

The current rash of shortages could have a substantial affect on our operations. The most highly publicized shortage—petroleum—has had very little direct affect. Magazine paper price increases and drastic postage increases represent the most serious problems; however, we have been assured of sufficient paper to print all of our magazines through 1974.

Generally, our operations are affected in the same manner as the general economy relative to price increases. The proposed postal rate increases do represent a peculiar problem. In selling subscriptions to *The Saturday Evening Post* we have attempted to anticipate such actions by charging more for a subscription than the single copy price. The publications of International Reports, although published on a generally greater frequency than our magazines, are sold for a subscription price plus postage. The pro-

posed increase will have a detrimental affect on our other publications as well as our direct mail promotion efforts. We are adjusting our selling prices and practices where possible to compensate for the contemplated increases.

Conclusion

It is always a pleasure to report on improvements. We are fully aware that much is yet to be accomplished. We are confident that the major problems are defined and solutions are at hand. We are looking forward to 1974 as another year of improvements.

Our sincere thanks to those employees, stockholders, creditors, and friends who have persevered with us.

Sincerely,

Beurt R. SerVaas
*Chairman of the Board and
President of the Company*

Harry L. Schroeder
Executive Vice President

April 5, 1974

Auditors' Report

To The Board of Directors of The Curtis Publishing Company:

We have examined the consolidated balance sheet of The Curtis Publishing Company (a Pennsylvania corporation) and subsidiaries as of December 31, 1973 and 1972, and the related consolidated statements of income, changes in shareholders' deficit and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company was recapitalized during 1972 and has substantially reduced the amount of operating losses experienced in prior years. The realization of the cost of property and equipment, and deferred circulation promotion expenses is dependent upon the success of its future operations.

In our opinion, subject to the realization of the costs referred to in the preceding paragraph, the accompanying consolidated financial statements present fairly the financial position of The Curtis Publishing Company and subsidiaries as of December 31, 1973 and 1972, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles which were applied consistently during the periods subsequent to the change made as of January 1, 1972, with which we concur, to deferring direct mail circulation promotion expenses as explained in Note 10 to the financial statements.

ARTHUR ANDERSEN & CO.

Indianapolis, Indiana,
March 7, 1974.

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
A S S E T S

	1973	December 31 1972
	(In thousands of dollars)	
CURRENT ASSETS:		
Cash and cash items	\$ 574	\$ 920
Notes and accounts receivable, net of allowances of \$991,000 in 1973 and \$905,000 in 1972 (Note 1)	1,168	678
Marketable securities (Note 6)	40	2
Inventories, principally editorial and art inventory, at the lower of cost or market	50	131
Prepaid expenses	143	198
Total current assets	\$1,975	\$1,929
DEFERRED CIRCULATION PROMOTION (Notes 1 and 10)	940	349
PROPERTY AND EQUIPMENT, at cost less accumulated depreciation of \$328,000 in 1973 and \$249,000 in 1972 (Notes 1, 7 and 13)	268	273
COST IN EXCESS OF NET ASSETS ACQUIRED (Note 1)	372	88
	<u>\$3,555</u>	<u>\$2,639</u>

LIABILITIES AND SHAREHOLDERS' DEFICIT

CURRENT LIABILITIES:		
Accounts payable	\$ 801	\$1,240
Notes payable, including current portion of long-term debt (Note 13)	652	431
Accrued expenses	253	403
Federal income taxes payable (Notes 1 and 12)	—	—
Total current liabilities	\$1,706	\$2,074
LONG-TERM DEBT (Note 13)	64	112
6% SUBORDINATED INCOME DEBENTURES DUE 1986 (Note 7)		
Principal	\$1,290	\$1,290
Interest	566	489
OTHER LIABILITIES	616	805
SUBSCRIPTIONS PAID IN ADVANCE, net of commissions (Note 1)	5,078	3,950
COMMITMENTS AND CONTINGENCIES (Notes 3, 4, 5 and 7)	—	—
SHAREHOLDERS' DEFICIT	(5,765)	(6,081)
	<u>\$3,555</u>	<u>\$2,639</u>

The accompanying notes are an integral part of this statement.

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,	
	1973	1972
	(In thousands of dollars)	
NET REVENUES:		
Magazine advertising	\$2,181	\$1,646
Magazine circulation and other	<u>6,871</u>	<u>4,488</u>
	<u>\$9,052</u>	<u>\$6,134</u>
COSTS AND EXPENSES:		
Production and delivery	\$4,732	\$3,939
Selling, general and administrative	4,392	2,504
Settlement adjustments and reductions of reserves (Note 11)	(403)	(440)
Depreciation	49	29
Interest expense, net of interest income of \$6,000 in 1973 and \$33,000 in 1972	<u>81</u>	<u>61</u>
	<u>\$8,851</u>	<u>\$6,093</u>
INCOME BEFORE FEDERAL INCOME TAXES AND EXTRAORDINARY ITEM	<u>\$ 201</u>	<u>\$ 41</u>
PROVISION FOR FEDERAL INCOME TAXES (Note 12):		
Current	\$2,080	\$ 100
Deferred	<u>(1,990)</u>	<u>(80)</u>
Total	<u>\$ 90</u>	<u>\$ 20</u>
INCOME BEFORE EXTRAORDINARY ITEM	<u>\$ 111</u>	<u>\$ 21</u>
EXTRAORDINARY ITEM:		
Utilization of net operating loss carryforward	<u>\$ --</u>	<u>\$ 20</u>
NET INCOME	<u><u>\$ 111</u></u>	<u><u>\$ 41</u></u>
NET INCOME PER SHARE OF COMMON STOCK (Note 14):		
Income before extraordinary item	\$.05	\$.01
Extraordinary item	<u>--</u>	<u>.01</u>
	<u>\$.05</u>	<u>\$.02</u>

The accompanying notes are an integral part of this statement.

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES
IN SHAREHOLDERS' DEFICIT

	Prior Preferred Stock		Common Stock		Capital Surplus	Accumulated Deficit
	No	No	Old	New		
Par value, per share			\$1.00	—		
Stated value, per share	\$50.00	\$10.00	—	\$1.10		
Dividend series	\$ 4.00	\$ 1.60	—	—		

(In thousands of dollars)

YEAR ENDED DECEMBER 31, 1972

(Note 2)

Balance at beginning of year	\$ 16,724	\$ 2,394	\$ 3,555	\$ —	\$ 983	\$(36,649)
Net income for year						41
Exchange of \$5,165,400 debentures plus accrued interest for 507,253 shares of new common stock				51	6,690	
Purchase of \$1,030,000 of debentures plus accrued interest					1,316	
Conversion of 334,470 shares of preferred stock, \$4.00 series into 515,053 shares of new common stock	(16,724)			51	16,673	
Conversion of 239,418 shares of preferred stock, \$1.60 series into 222,658 shares of new common stock		(2,394)		22	2,372	
Conversion of 3,555,568 shares of old com- mon stock into 355,556 shares of new common stock			(3,555)	36	3,519	
Issuance of 670,046 shares of new common stock for acquisition of the assets of the Review Publishing Company				67	(67)	
Deficit acquired in acquisition of Review Publishing Company					(759)	
Expenses of recapitalization and acquisition ..					(427)	
Unrestricted capital surplus applied to reduc- tion of deficit					(30,300)	30,300
Balance at end of year	—	—	—	227	—	(6,308)

YEAR ENDED DECEMBER 31, 1973

Net income for year						111
Utilization of net operating loss carryforward					90	
Excess pension plan funding recovered						61
State tax refund						44
Issuance of 7,500 shares to contributors				1	9	
Balance at end of year	\$ —	\$ —	\$ —	\$ 228	\$ 99	\$(6,092)
TOTAL SHAREHOLDERS' DEFICIT						\$ (5,765)

NUMBER OF SHARES DECEMBER 31, 1973 DECEMBER 31, 1972

Authorized	8,000,000	8,000,000
Outstanding	2,278,066	2,270,566

The accompanying notes are an integral part of this statement.

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31,	
	1973	1972
	(In thousands of dollars)	
FUNDS PROVIDED BY:		
Net income, including extraordinary item in 1972	\$ 111	\$ 41
Add (deduct) items not affecting working capital in current period:		
Depreciation	49	29
Deferred interest	77	77
Increase in subscriptions paid in advance, net	<u>1,128</u>	<u>943</u>
Working capital provided by operations	\$1,365	\$1,090
Reduction of accounts receivable due after one year	—	280
Increase in long-term debt	—	108
Increase in other long-term liabilities	—	58
Reduction of deficit due to decrease in 6% subordinated debentures outstanding	—	8,057
Excess pension plan funding recovered	61	—
Utilization of net operating loss carryforward	90	—
State tax refund	44	—
Stock issued to contributors	<u>10</u>	<u>—</u>
	<u>\$1,570</u>	<u>\$9,593</u>
FUNDS USED FOR:		
Additions to property and equipment	\$ 44	\$ 207
Increase in other assets	284	5
Expenses incidental to recapitalization and acquisition	—	427
Deficit acquired in acquisition of Review Publishing Company	—	759
Decrease in 6% subordinated debentures outstanding	—	8,141
Increase in deferred circulation promotion	591	349
Decrease in long-term debt	48	—
Decrease in other long-term liabilities	<u>189</u>	<u>—</u>
	<u>\$1,156</u>	<u>\$9,888</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ 414</u>	<u>\$ (295)</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increases (decreases) in current assets		
Cash	\$ (346)	\$ 494
Notes and accounts receivable, net	490	(938)
Marketable securities	38	(28)
Inventories	(81)	15
Prepaid expenses	<u>(55)</u>	<u>46</u>
	<u>\$ 46</u>	<u>\$ (411)</u>
(Increases) decreases in current liabilities		
Accounts payable	\$ 439	\$ (440)
Notes payable	(221)	(252)
Accrued expenses	<u>150</u>	<u>808</u>
	<u>\$ 368</u>	<u>\$ 116</u>
Increase (decrease) in working capital	<u>\$ 414</u>	<u>\$ (295)</u>

The accompanying notes are an integral part of this statement.

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Principal Accounting Policies and Methods:

General

The financial statements include the accounts of The Curtis Publishing Company and its subsidiaries, all of which are wholly owned. Significant intercompany balances and transactions have been eliminated.

Acquisition

Acquisitions have been recorded by the purchase method. The excess of cost over net assets acquired, subsequent to October 31, 1970, except for the acquisition of Review Publishing Company in 1972, has been capitalized and is being amortized over a period of forty years. The deficit resulting from the acquisition of Review Publishing Company was charged to Shareholders' Deficit. Capitalized amounts relating to purchases prior to October 31, 1970 of approximately \$60,000 are not being amortized.

Purchase And Sales Of Leased Equipment

Gain or loss on the sale of leased equipment and income from the prepayment of interest and points related thereto is not recognized until all events have transpired to fix the amount of income or gain with certainty. Only fees and rent currently earned are recognized as current income. Balance sheet accounts are netted.

Paid-During-Service Subscription Contracts

Paid-during-service subscription contracts are receivable primarily in monthly installments up to thirty-six months in frequency. It is impracticable to determine the amount of such contracts not due within one year, therefore the unpaid portion has been included in current accounts receivable. Reserves have been established for the estimated uncollectible amounts.

Deferred Circulation Promotion

Beginning in 1972, the cost of direct mail subscription promotions which can reasonably be expected to result in subscription income in future periods is carried as deferred charges and charged against income in the period the resulting subscription revenue is recognized.

Subscriptions Paid in Advance

Many subscriptions are for a period in excess of one year. The income resulting from such prepaid subscriptions and the related commission expenses are deferred and amortized over the period the subscriptions are fulfilled.

Federal Income Taxes

Certain income and expenses are not reported for tax purposes in the same period as for financial statement purposes. Deferred tax effects are recorded for these timing differences.

Benefits from utilization of net operating loss carry-forward are credited to capital surplus to the extent of the capital surplus applied to reduction of accumulated deficit at the time of recapitalization in 1972.

The investment tax credit will be included in income in the period it is used to reduce the tax liability.

Depreciation

Depreciation is provided by the straight line method at annual rates considered adequate to amortize costs over the useful lives.

(2) Plan of Recapitalization and Acquisition of Review Publishing Company, Inc.:

During 1972, a plan of recapitalization was accomplished whereunder the \$4.00 Dividend and the \$1.60 Dividend preferred stocks, the old common stock, and approximately 80% of the 6% Subordinated Income Debentures, due 1986 were exchanged, reclassified or converted for new common stock. The acquisition of Review Publishing Company, Inc. for new common stock was also accomplished in connection with recapitalization. In addition, the Company elected, as part of the plan, to exercise its option to acquire \$1,030,000 of 6% Subordinated Income Debentures from Beurt R. SerVaas, Chairman of the Board and President of the Company, at his cost of \$82,400, plus interest from the respective dates on which he purchased the debentures.

(3) Acquisition Of International Reports, Inc.:

Effective October 17, 1973, The Saturday Evening Post Company purchased from Mr. Guenter Reimann all of the outstanding common stock of International Reports, Inc., a publisher of international financial services. The cash purchase price includes an initial installment of \$100,000 paid at time of closing, and \$300,000 payable in 1974, which is reflected in current liabilities. The remainder of the stated purchase price of \$1,650,000 is deferred and is contingent, as to timing and amount, on income as defined in the purchase agreement, through December 31, 1976. The deferred installments bear interest at New York prime rates. The purchase agreement further provides that a royalty on gross sales of current

publications shall be paid by International Reports, Inc. to Mr. Guenter Reimann at the rate of 5% from January 1, 1977, through December 31, 1981, and thereafter at the rate of 3% through December 31, 1986. Additionally, Mr. Reimann is to be retained as the Chief Executive Officer until he receives all of the sales price of his stock at a salary of \$50,000 per year. Net income from date of acquisition was \$13,000.

(4) Formation of Curtis Equipment Corp.:

During the year, Curtis Equipment Corp., a Nevada corporation, was formed as a wholly-owned subsidiary of The Saturday Evening Post Company for the purpose of participating in equipment leasing transactions. In several transactions during November and December, 1973, Curtis Equipment purchased from leasing companies, subject to existing leases data processing equipment in the amount of \$19,620,771, and leased-back the equipment in the same transaction. The purchase price was paid in cash of \$2,613,582, non-recourse notes of \$16,807,189 and notes with recourse against the purchaser of \$200,000. The user-lessees are major industrial and commercial companies. Curtis Equipment in turn, sold the subject equipment and leases to several limited partnerships. The consideration for the sales was cash of \$287,936 and non-recourse notes of \$20,765,309. In addition, the partnerships prepaid interest on their obligations in the amount of \$3,557,788. Fees of \$1,232,142 were paid to others in connection with the transactions. The resulting taxable income of \$3,790,633 has been offset by utilization of the net operating loss carryforward of affiliated companies. Net income included in the consolidated statement is \$17,000.

(5) Commitments and Contingencies:

Income Taxes

Based upon the tax returns, as filed or to be filed, the Company's net operating losses would expire as follows:

1974	\$18,921,000
1975	3,335,000
1976	2,816,000
1977	152,000

The Company's Federal income tax returns for 1963 and all subsequent years are subject to audit by the Internal Revenue Service and the net operating loss carryforwards could therefore be subject to significant change. The utilization of the above net operating loss carryforwards is subject to the Company's ability to generate taxable income of the types and in the amounts necessary to utilize such carryforward prior to the years of expiration.

Litigation

The Company is a defendant in lawsuits, and a party to other actions and claims. In the opinion of management these claims and actions can be resolved in a manner which will not jeopardize the continued existence of the Company.

(6) Marketable Securities:

On January 9, 1969, The Saturday Evening Post Company purchased 79,511 shares of Lin Broadcasting Corporation common stock for \$44 a share. The quoted market price on that date was \$30 per share. At December 31, 1969, the investment was written down to \$700,000, to reflect the approximate quoted market value. In 1971, the Company sold the shares for approximately \$915,000, and the resulting gain of \$215,000 was recorded as an extraordinary credit.

During the year, the legal proceeding which had been instituted by the Company as a result of this purchase was concluded by a court-approved settlement. Pursuant to that settlement, The Saturday Evening Post Company received a Stock Subscription Agreement to subscribe for and purchase 52,973 shares of common stock of Lin Broadcasting Corporation at the price of \$9.20 per share through December 6, 1976. In addition, as part of the settlement, the Company reached an accord with Mr. Frederick H. Gregg, Jr. which would require that Mr. Gregg pay the Company \$100,000 over a period of four years.

The Company has assigned its rights to subscribe to 26,000 Lin shares and its settlement with Mr. Gregg to Morgan, Lewis & Bockius in satisfaction of legal fees.

The remaining rights to purchase Lin stock were sold subsequent to December 31, 1973 for \$1.00 per share.

(7) Lease Obligations:

The Company has lease obligations for sales offices of approximately \$30,000 per year through 1982 and for equipment of approximately \$100,000 per year through 1975. The Company has arrangements for rental of general offices. Total rent expense in 1973 was \$312,000.

(8) Stock Option Plan:

The Company's Qualifying Stock Option Incentive Plan, as amended in 1964, expired by its terms at the end of 1973. No options were granted during 1973, and none were outstanding as of December 31, 1973.

(9) Pension Plan:

Effective December 31, 1970, the Pension Trust of a subsidiary was terminated and the Board of Directors

authorized the Trustees to provide for the accrued benefits of eligible employees and to refund to the Company any balance remaining. A final liquidating payment of \$61,000 was received and credited to accumulated deficit.

(10) Change of Accounting Method:

In 1972 the Company began deferring expenses related to direct mail subscription promotion efforts to more closely match these expenses with subscription revenue (Note 1). In prior years the Company had expensed these costs as incurred. The change had the effect of increasing net income in 1972 by \$349,000 and \$.15 per share.

(11) Reserves:

Reserves had been provided in prior years, based upon best estimates of collectability of the applicable receivables or for anticipated results of disputed items. The Company has reduced such reserves to the extent of subsequent collections or settlements of disputed items.

(12) Federal Income Taxes:

Income tax expense is made up of the following components:

	<u>1973</u>
Current	\$2,080
Deferred credits	<u>(1,990)</u>
	<u>\$ 90</u>

Deferred tax credits result from timing differences in the recognition of revenue and expenses for tax and financial statement purposes. The sources of these differences in 1973 and the tax effect of each were as follows:

Interest accrued, not deductible until paid	\$ (37)
Income on sale of computer equipment, deferred for financial statement purposes	(1,813)
Circulation promotion costs deferred for financial statements purposes	284
Subscription commissions previously deducted for tax purposes	(244)
Subscription income deferred for financial statements	(365)
Provision for bad debts in excess of allowable tax provision	(18)
Settlement costs accrued in prior year, deductible when paid	203
	<u><u>\$ (1,990)</u></u>

(13) Notes Payable and Long-Term Debt:

Notes payable and long-term debt outstanding at December 31, 1973 include:

Capitalized leases maturing to 1977 payable monthly at interest rates of 8-10%, collateralized by equipment	\$ 80
Notes payable to Banks, 8-10 $\frac{3}{4}$ %, payable to 1977, collateralized in part by equipment	\$206
Notes payable to individuals, 5-10%, payable at various dates to 1976	<u>430</u>
	716
Less current portion	<u>652</u>
Long-term	<u><u>\$ 64</u></u>

(14) Earnings Per Share:

Net income per share of common stock in 1972 is based on 2,270,566 shares, which was the number of shares of new common stock outstanding after recapitalization (Note 2). Earnings per share for 1973 is based on the weighted average number of shares outstanding during the period, 2,272,992.

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES

Five Year Financial Review

(In thousands of dollars except per share amounts)

	Year ended December 31,				
	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>	<u>1969</u>
OPERATING RESULTS					
Net revenues	\$ 9,052	\$ 6,134	\$ 5,894	\$ 6,115	\$ 32,031
Net income (loss) before extraordinary items	\$ 111	\$ 21	\$ (900)	\$ (2,927)	\$ (11,137)
Extraordinary credits (charges)	\$ —	\$ 20	\$ 3,144	\$ 2,917	\$ (8,296)
Net income (loss)	\$ 111	\$ 41	\$ 2,244	\$ (10)	\$ (19,433)
Net income (loss) per common share	\$.05	\$.02	\$.99*	\$ —*	\$ (8.56)*
YEAR END FINANCIAL POSITION					
Ratio of current assets to current liabilities	1.16	(.93)	1.07	(.89)	(.65)
Property and equipment (net)	\$ 268	\$ 273	\$ 95	\$ 86	\$ 9,950
Long term debt	\$ 1,920	\$ 1,891	\$ 9,847	\$ 12,593	\$ 12,114
Debenture interest included in long term debt	\$ 566	\$ 489	\$ 2,358	\$ 2,542	\$ 1,944
Shareholders' deficit	\$ (5,765)	\$ (6,081)	\$ (12,993)	\$ (17,362)	\$ (14,720)
Net book value per common share	\$ (2.53)	\$ (2.68)	\$ (5.72)*	\$ (7.65)*	\$ (6.48)*

*Restated for recapitalization in 1972

DIRECTORY

THE CURTIS PUBLISHING COMPANY AND SUBSIDIARIES

Directors

THE CURTIS PUBLISHING COMPANY

Beurt R. SerVaas, *Chairman*
President of the Company

Frederic A. Birmingham,
Managing Editor and Associate Publisher
for the Company

John Burkhart
Chief Executive Officer
College/University Corporation

Julie N. Eisenhower
Associate Editor for the Company

James N. Kise
Partner, David A. Crane & Partners

Harry L. Schroeder
Executive Vice President

Cory SerVaas
Vice President of the Company

Officers

THE CURTIS PUBLISHING COMPANY AND THE SATURDAY EVENING POST COMPANY

Beurt R. SerVaas, *President*

Harry L. Schroeder, *Executive Vice President*

Cory J. SerVaas, *Vice President*

Betty Ann Foxworthy, *Vice President*

Mary Alice Simpson, *Vice President*

Bob A. Simmons, *Treasurer and Controller*

Frederick B. Tuttle, *Secretary*

INTERNATIONAL REPORTS, INC.

Harry L. Schroeder, *Chairman*

Guenter Reimann, *President and Treasurer*

Frederick B. Tuttle, *Secretary*

CURTIS EQUIPMENT CORP.

Harry L. Schroeder, *President*

Bob A. Simmons, *Treasurer*

Frederick B. Tuttle, *Secretary*

Auditors ARTHUR ANDERSEN & CO.

Stock Registrar and
Transfer Agent THE FIDELITY BANK

Debenture Trustee THE FIRST PENNSYLVANIA
 BANKING AND TRUST COMPANY

Stock Exchanges on PBW
Which Common Stock MIDWEST
is Traded PACIFIC COAST

Counsel BAKER & DANIELS
 Indianapolis

MORGAN, LEWIS & BOCKIUS
 Philadelphia

LEE CASH & MARKS
 New York

The Curtis Publishing Company and Subsidiaries
Publications

THE SATURDAY EVENING POST **HOLIDAY**

JACK ^{AND} JILL

YOUNG WORLD

CHILD LIFE

Children's
PLAYMATE
FOR YOUNG READERS
Magazine

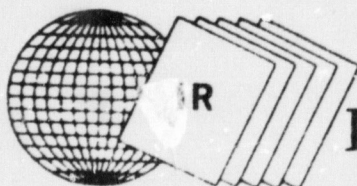
**TRAP &
FIELD**

nuggets

Design

**PLYWOOD
& PANEL**

Indiana Business and Industry



INTERNATIONAL REPORTS

FOREX SERVICE

INTERFINANZBRIEF

INSTITUTE on SWITCH & BARTER

INTERNATIONAL BUSINESS INTELLIGENCE

INTERNATIONAL EXPORT CREDITS INSTITUTE



THE CURTIS PUBLISHING COMPANY

**UNITED STATES COURT OF APPEAL
FOR THE SECOND CIRCUIT**

OSCAR GRUSS & SON
Plaintiff- Appellees

- against -

CURTIS PUBLISHING CO.

Defendant- Appellant

Index No.

Affidavit of Personal Service

STATE OF NEW YORK, COUNTY OF **NEW YORK**

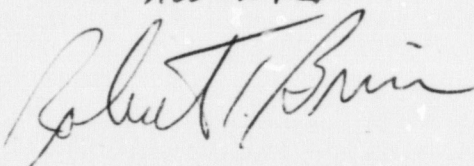
ss.:

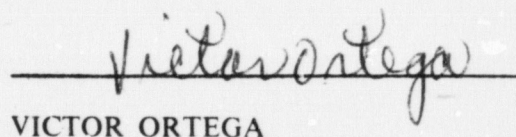
I, Victor Ortega, being duly sworn,
depone and say that deponent is not a party to the action, is over 18 years of age and resides at
1027 Avenue St. John, Bronx, New York
That on the 24th day of November 1975 at **122 East 42nd Street**

deponent served the annexed appendix upon

Kass, Goodkind, Wechsler & Gerstien
the **Attorneys** in this action by delivering a true copy thereof to said individual
personally. Deponent knew the person so served to be the person mentioned and described in said
papers as the Attorney(s) herein.

Sworn to before me, this 24th
day of November 1975




VICTOR ORTEGA

ROBERT T. BRIN
NOTARY PUBLIC, State of New York
No. 31-0418950
Qualified in New York County
Commission Expires March 30, 1977